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POLICY SERIES

Policy Series 5

INTERNATIONAL TRADE IN AGRICULTURAL COMMODITIES – LIBERALIZATION AND ITS IMPLICATIONS FOR DEVELOPMENT AND POVERTY REDUCTION IN THE ACP STATES

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CONTENTS

	Preface	iv
	Executive summary	1
1	**Introduction**	4
	Background	4
	International trade in agricultural commodities: what does it involve?	5
	Agricultural trade liberalization and poor countries: the key issues	5
	How agricultural trade affects poor people's livelihoods	6
	Scope of the publication	8
2	**Agricultural trade: how ACP countries participate and benefit**	9
	ACP dependence on exports of primary agricultural commodities	9
	Characterizing ACP agricultural trade	12
	Factors which influence agricultural trade	23
	Agricultural trade and sustainable development in ACP countries	29
3	**Ways to increase ACP participation and benefits from trade**	38
	How are the benefits from trade shared between the North and South?	38
	Increasing participation in trade: where ACP countries can intervene	40
	EU policies for development and trade	54
4	**Conclusions and recommendations**	63
	Conclusions	63
	Recommendations: enabling the poor to benefit from agricultural trade	64
	The long-term view	72
	Bibliography	72
	Acronyms and abbreviations	79

PREFACE

This series is principally concerned with current policy issues of importance to developing countries but also covers those relevant to countries in transition. The focus is upon policies which affect the management of natural resources in support of sustainable livelilhoods. Much of the series will be devoted to concerns affecting the livelihoods of poor people in rural areas, recognizing the linkages with non-natural resource-based livelihoods. It will also include the interests of the urban poor, where these are linked to the use of natural resources as part of livelihood strategies.

The series will take a holistic view and cover both the economic and social components affecting livelihoods, and associated factors notably with respect to health and education. The aim is to provide topical analyses which are based upon field research where appropriate, and which will inform development practitioners concerned with issues of poverty in development.

The series is timely, given the increasing focus upon poverty and poverty elimination in the agenda of the development community. It is also timely with respect to the growing body of recent work which seeks to replace earlier, simplistic structural adjustment programmes with more flexible approaches to livelihoods, institutions and partnerships.

Policy analysis is often assumed to be the remit of social scientists alone. Whilst it is recognized that social science may play a pivotal role, interactions with other disciplines may also be critical in understanding and analysing policy issues of importance to the poor. The series therefore draws upon a wide range of social and natural scientific disciplines reflecting the resource base at the Natural Resources Institute.

POLICY SERIES

EXECUTIVE SUMMARY

This publication concerns developing countries and agricultural trade. It aims to provide guidance on ways to make trade policy more pro-poor. It addresses four key questions:

- does international trade liberalization in agriculture benefit poor countries?
- does liberalized trade stimulate growth in the agricultural sector, and what are the developmental impacts – on poverty, livelihoods, gender, and the environment?
- is there coherence between European Union (EU) trade and development policies? and
- how can developing countries be more effectively integrated into the world economy, participate more fully in trade, and how could the results benefit the poor?

Agricultural trade is important to the poor in developing countries because: most of the world's poor live in rural areas where agriculture is a key source of income and consumption; agricultural trade provides a source of growth; and agricultural growth stimulates growth in other sectors.

Analysis of trade patterns reveals continuing dependence by African, Caribbean and Pacific (ACP) countries on a small group of primary (mostly agricultural) commodity exports. With a few notable exceptions, most of the value is added in the importing country, and developing countries face continuous decline in the terms of trade as the cost of their manufactured imports rises relative to export values. ACP countries tend to export primary commodities to high-income countries, and import manufactured goods in exchange. In Africa, however, recent research indicates the major

role played by unrecorded regional trade whose value in some countries exceeds that of official exports.

Global trends towards trade liberalization, economic reforms in ACP countries, foreign investment and infrastructural development have all played a role in ACP participation in trade – but it is clear that the benefits still largely accrue to Northern trading partners. EU policies for trade and development, moreover, are not mutually supportive. There is considerable scope for greater coherence between the two, but reconciling these different agenda is not likely to be easy or rapid.

Nevertheless, agricultural trade does create employment and livelihood opportunities – through direct participation in production, or associated trading or handling activities. Just as there are many types of trade, there is enormous variation in trade impacts – be they on poverty, gender or the environment – underlining the importance of careful analysis in the choice of trade development path.

Several areas are identified where developing countries can intervene to improve their participation in trade and reap the benefits generated. Regional trade should be facilitated and informal trade 'decriminalized'. More research is needed on this trade, but it may be more strongly rooted in local economies and more accessible to less advantaged people – and it is certainly significant. Much can be done to strengthen the enabling environment; at the macro-level (to create stability) and at the micro-level (with particular attention to the local institutions that facilitate poor people's participation in agricultural trade-related activity). Some specific options to add value and create employment in labour-intensive activities are reviewed, and the role of ethical trade is discussed.

At an international level there is also an important task for the ACP countries: to participate in the World Trade Organisation and to argue for their interests. This underlines the importance of donor support to capacity building in trade policy analysis.

While many developing countries could do more to attract productive investment (reduce market distortions, unrealistic exchange rates and trade restrictions), international trade, and the conditions under which it operates, are determined to a large extent by the dominant trading countries which are also the most developed economies. Although there is

a professed interest by the major donors to eliminate poverty, there is a tendency for trade policy to have a very different ranking from that of development. If the donor agencies from the most developed economies want to eliminate poverty, there is a need to address the global imbalance caused by the developed countries having only one-fifth of the world's population while producing four-fifths of world output and accounting for more than four-fifths of world trade.

POLICY SERIES

1

INTRODUCTION

BACKGROUND

The 1980s and 1990s have been marked by increasing moves towards global economic liberalization. Dismantling the barriers to international trade and investment is seen as the route to enhanced global prosperity, based on specialized production in areas of comparative advantage. Yet whilst some countries have clearly benefited from these moves, the effects in many less-developed countries, particularly in Africa, are less clear. This publication considers how international agricultural trade affects the livelihoods of poor people. It aims to provide guidance on ways to make trade policy more pro-poor, and to identify developing country policy options for maximizing the benefits to the poor from international trade liberalization.

This is one of a series of publications which seeks to amplify the relationship between poverty, rural livelihoods and key policy areas. The publications are intended for a wide audience in developing country governments, donor agencies, research institutes and other organizations concerned with development or governance. They are intended to contribute to increased poverty focus in development by informing and stimulating debate, policy and action amongst key players in the development process.

This publication was originally prepared as a briefing paper for the EU. The EU briefing papers have sub-Saharan Africa as their primary focus, though case study material may also be drawn from Caribbean and Pacific country experience. The information they contain is based principally on a review of secondary data and documentation – though some specific aspects have been explored through short focused field studies.

INTERNATIONAL TRADE IN AGRICULTURAL COMMODITIES: WHAT DOES IT INVOLVE?

To trade is to exchange – goods for goods, money for goods, and goods for money. International trade concerns the buying and selling of goods and services between countries, with prices usually denominated in an internationally tradable currency. International trade in goods and services, the financial flows that accompany it, and foreign direct investment are all growing rapidly.

Yet increasingly this integration gives rise to complex political, economic and institutional issues. Growing international flows of goods and capital require increasingly complex and flexible financial instruments. The way in which goods are produced and traded may embody social or environmental values. Trade sanctions may be used to exert pressure on another aspect of a country's behaviour. As countries compete to exploit the economic advantages of trade, governance mechanisms are needed to regulate these activities and resolve the conflicts, which inevitably arise, and to ensure that the weakest partners are not always the losers.

AGRICULTURAL TRADE LIBERALIZATION AND POOR COUNTRIES: THE KEY ISSUES

It is argued that trade liberalization generates net benefits.

> If international trade is undertaken without coercion people benefit on both sides of the transaction, otherwise trade would not occur. In addition to the narrow commercial motives of individuals, firms and government agencies, some broader economic effects occur as trade develops. ... International trade allows consumers access to a bigger and more diverse bundle of goods and services at lower overall prices than does isolation. Differences between domestic and international prices indicate a profitable opportunity to transform domestic goods into foreign goods via exchange. ... National differences in opportunity costs of production determine which goods are exported and which are imported. Thus trade can have a huge impact on a country's economic structure. ... Generally trade is better for a nation's economy than no trade though it may not be beneficial to all individuals within an economy. International trade can cause economic adjustments that are painful to some

> people even though the country benefits as a whole. (Houck (1986) pp.15-19).

Houck conveniently introduces the issues this publication seeks to address. He explains the rationale that underpins the drive towards trade liberalization, but he also hints at some of the equity issues, which concern us here, namely:

- does international trade liberalization in agriculture benefit poor countries, particularly in sub-Saharan Africa?
- does liberalized trade stimulate growth in the agricultural sector in sub-Saharan Africa, and have a positive impact on poverty, livelihoods, gender, and the environment?

If trade and development policy have similar objectives (i.e. economic development), two more issues arise:

- is there coherence between trade and development policies within developed countries and the international economy?
- how can developing countries be effectively integrated into the world economy, and participate more fully in trade? – and how could the results benefit the poor?

HOW AGRICULTURAL TRADE AFFECTS POOR PEOPLE'S LIVELIHOODS

Agricultural trade has the potential to have an impact on poverty in a number of ways. Section 2 explores this in more detail, but the key trade/poverty linkages are summarized in Box 1 and discussed below.

Box 1 Why agricultural trade is important to poor people

- Most of the world's poor live in rural areas
- Agriculture is a key source of income and consumption in rural areas
- Agricultural growth stimulates growth in other sectors
- Agricultural trade provides a source of growth

Although the ACP countries are experiencing rapid growth in urban populations, the majority of populations still live in rural areas. Urbanization has led to growing urban poverty, but the majority of the ACP's poor are still rural. Most are smallholders whose livelihoods depend on diverse activities in agriculture and the rural non-farm sector (including mining in some countries), and remittance income. Agriculture plays a pivotal role in the livelihoods of poor rural populations.

- Whilst a thriving rural non-farm sector may be desirable, most studies indicate that growth in the agricultural sector is the key to its development. Even in urban areas, agro-processing based on locally produced raw materials is one of the few feasible options for industrialization. Yet low incomes and poorly developed undiversified economies do not provide remunerative domestic markets for agricultural commodities and manufactures. In the short- to medium-term, this crucial missing link can only be provided by export markets.

- The agricultural sector is therefore important to poor people as a source of income and food, whether own-production or purchased (many poor people, even in rural areas, are net purchasers of food). Cash crops for export may provide a source of income, just as cheap imports of rice and wheat products may be important staples for the poor, particularly in large coastal cities (half of Africa's cities with populations of more than 750 000 are coastal, and imports are cheaper here because relatively high internal distribution costs are avoided).

- The multi-dimensional nature of poverty is increasingly acknowledged – a concept that goes beyond the absence of sufficient monetary income (Engberg-Pedersen *et al.*, 1996). Poverty may be characterized by:
    - lack of employment opportunities;
    - lack of access to education, health services and economic assets such as land and credit;
    - food insecurity and malnutrition;
    - lack of proper shelter;
    - physical isolation in isolated areas; and
    - vulnerability to external shocks and disease.

Whilst agricultural trade may not have a direct impact on all these aspects, the key economic role of the agricultural sector cannot be denied. The

challenge is to foster agricultural trade and development that enables poor people to participate in the benefits.

This calls for a considered view of who participates in, and benefits from, agricultural trade, and how. Some types of trade have a more powerful effect on poverty. When the Eastern Caribbean switched from sugar to banana exports in the 1950s, this had far-reaching socio-economic effects. Bananas provide year-round income; small-holders were not dependent on making sales to a central processing plant as with sugar; and even small producers could participate. Understanding and planning for these impacts demands analysis of gender effects, food crop/cash crop interactions, production systems and economic linkages.

SCOPE OF THE PUBLICATION

- The first section has introduced the key poverty questions arising from agricultural trade liberalization and outlined the importance of agricultural trade to poverty.
- The second section analyses the nature and extent of ACP participation in agricultural trade and the effect this has on poverty, livelihoods, gender and the environment.
- The third section considers how the benefits from trade are presently shared between the North and the South; the effect of EU trade and development policies; and steps that would enable ACP countries to realize greater benefits through increased participation in global agricultural trade expansion.
- The final section presents conclusions and recommendations, and suggests actions that can be taken internationally, and at country level, so that agricultural trade can help improve the livelihoods of poor people.

Although the primary focus of this publication is on agricultural trade and related processing sectors, trade in forestry and fisheries products is also considered.

2

AGRICULTURAL TRADE: HOW ACP COUNTRIES PARTICIPATE AND BENEFIT

This section explores the following:

- ACP dependence on exports of primary agricultural commodities;
- the characteristics of ACP agricultural trade;
- key factors which influence ACP agricultural trade; and
- how agricultural trade affects livelihoods, gender, poverty and the environment.

ACP DEPENDENCE ON EXPORTS OF PRIMARY AGRICULTURAL COMMODITIES

Many developing countries have relatively undiversified economies with little industry and manufacturing and still rely, largely, on exports of primary agricultural, forestry and fisheries products.

> At independence, most African, Caribbean and Pacific countries inherited economies whose trade focused on supplying a few primary commodities to their colonial mother countries, mainly food, agricultural raw materials and minerals for manufacturers and consumers in Europe. Local food production, manufacturing and market development received little attention.
>
> Most of the new African countries adopted development strategies emphasising import-substituting industrialisation, in which the state played major financial and managerial roles. The primary commodities that had been the export mainstays were expected to remain important only in the short term... Thus, little attention was

given to adding value to agricultural commodity exports, or to diversifying them. Most agricultural markets were heavily controlled by the state or replaced by parastatal agencies and agricultural exports and domestic agriculture were directly or indirectly taxed to provide resources for the industrialisation drive. (Jaffee (1992) pp.62-63).

For many ACP countries primary agricultural products still form the bulk of their exports as well as one of the main sources of employment for their labour force. Table 1 shows levels of dependency on agricultural exports

Table 1 Poverty and dependence on agricultural commodity exports in ACP countries

	ACP State	GDP/ capita (US$) 1997	HDI rank* 1995	Population without access to safe water (%) 1990–96
(a) < 25% dependency on agricultural commodities for export earnings (1994-1996 average)				
	Angola	340	156	68
	Botswana	3 260	97	16
	Cape Verde	1 090	117	49
	Rep. Of Congo	660	128	66
	Djibouti	..	162	10
	Equatorial Guinea	1 050	135	5
	Eritrea	210	168	78
	Gabon	4 230	120	32
	Guinea	570	167	54
	Lesotho	670	134	38
	Liberia	..	..	..
	Mauritania	450	149	26
	Namibia	2 220	107	43
	Niger	200	173	52
	Nigeria	260	142	50
	Senegal	550	158	37
	Seychelles	6 880	56	..
	Sierra Leone	200	174	66
	South Africa	3 400	89	1
	Antiga and Barbuda	3 380	29	..
	Bahamas	11 830	32	..
	Haiti	330	159	63
	Jamaica	1 560	84	14
	Suriname	1 240	65	..
	Trinidad and Tobago	4 230	40	3
	Kiribati	910	..	..
	Papua New Guinea	940	129	72
	Solomon Islands	900	123	39
(b) 25-50% dependency				
	Benin	380	145	50
	Cameroon	650	132	50

Table 1 *contd*

	Central African Rep.	320	154	62
	Ethiopia	110	169	75
	Democratic Rep. Congo	110	143	58
	Gambia	350	165	52
	Ghana	370	133	35
	Mauritius	3 800	61	2
	Mozambique	90	166	37
	Rwanda	210	..	..
	Swaziland	1 440	115	40
	Zambia	380	146	73
	Zimbabwe	750	130	21
	Barbados	6 580	24	0
	Guyana	800	100	39
	St Kitts and Nevis	6 160	50	0
	Fiji	2 470	44	0
(c) 51 75% dependent				
	Chad	240	163	76
	Comoros	400	141	47
	Côte d'Ivoire	690	148	18
	Kenya	330	137	47
	Madagascar	250	153	66
	Mali	260	171	34
	Sao Tome and Principe	270	121	18
	Somalia	..	..	..
	Tanzania	210	150	62
	Togo	330	144	45
	Belize	2 180†	63	11
	Dominica	3 120	41	4
	Dominican Republic	1,670	88	35
	Grenada	3 000	51	..
	St Lucia	3 620	58	..
	Samoa	1 150	94	18
	Tonga	1 830	..	..
(d) 76 - 100% dependent				
	Burkina Faso	240	172	22
	Burundi	180	170	48
	Guinea-Bissau	240	164	41
	Malawi	220	161	63
	Sudan	..	157	50
	Uganda	320	160	54
	St Vincent	2 500	55	11
	Vanuatu	1 310	124	13

Sources: FAO (1996); UNDP (1998).

Notes: * Human Development Rank is based on the Human Development Index, calculated from: life expectancy at birth (years), 1995; adult literacy rate (%), 1995; combined first, second and third-level gross education enrolment ratio (%), 1995; real GDP/capita (PPP$), 1995. (Lower score = greater human development)

† 1991 data

.. data not available

for each ACP state as well as indicators of poverty in these countries. Although considerable variation in per capita GDP exists in each of the four dependency groups, the group average GDP per capita is highest for the least dependent countries and lowest for the most dependent. When it comes to poverty, measured by a country's human development indicator (HDI) ranking, the average rank of the first three groups (< 25%; 25–50% and 51–75% dependent) is very similar (119; 117; 117) while the countries most dependent on exports of agricultural commodities have a higher HDI rank (145). Many of the countries with a low dependency on agricultural exports are, nonetheless, dependent on other primary product exports such as oil, minerals, wood or fish.

Some countries are extremely dependent on a single commodity, such as Uganda, where coffee accounted for 90% of foreign exchange earnings in the late 1980s, and Malawi, where tobacco represents two-thirds of the value of official exports. Table 2 shows the share of export earnings from nine important export crops in selected ACP countries. For many of the commodities and countries there has been little change in export structure for 35 years.

CHARACTERIZING ACP AGRICULTURAL TRADE

Direction of trade

The industrial countries continue to be developing countries' main market and supplier of imported goods. The EU is the main market for ACP exports, importing 41% of their total exports in the early 1990s.

For Africa, 66 % of its merchandise export trade in 1994 was directed to Western Europe, the US and Japan, while the imports from those countries amounted to 67 % of Africa's merchandise imports. This represents little change from the situation nearly 25 years earlier. The figures for 1970 were 70 % and 68 % respectively (African Development Bank, 1996). Food exports from developed countries to developing countries are significant. There is also considerable trade between developing countries. For example, Africa imports large amounts of rice and edible oil from the Far East; in 1995 Thailand exported nearly 800 000 tonnes of milled rice to West Africa (FAOSTAT).

Table 2 Percentage share of total export earnings from important export crops in selected ACP countries (1961-1996)

	1961-69	1970-79	1980-89	1988-90	1994-96
Bananas					
Cape Verde	17.6	11.3	18.2	27.9	2.4
Somalia	39.6	16.5	12.7	28.1	5.6
St Lucia	78.6	48.5	53.0	57.2	60.7
St Vincent	49.8	47.8	59.0	43.5	41.1
Cocoa					
Côte d'Ivoire	21.3	24.9	33.0	31.4	34.1
Cameroon	30.3	27.4	19.5	17.8	8.7
Ghana	69.8	69.3	49.3	44.6	29.6
Equatorial Guinea	-	70.4	40.5	19.2	6.6
Sao Tome and Principe	70.6	75.0	70.1	50.2	63.5
Vanuatu	2.3	4.0	5.2	7.8	5.6
Coffee					
Burundi	66.8	84.6	84.6	80.8	65.6
Central African Republic	19.8	26.9	18.3	17.0	7.6
Côte d'Ivoire	36.4	29.2	17.8	13.0	6.7
Cameroon	25.2	27.2	23.9	20.0	7.3
Ethiopia	57.8	52.9	63.8	60.1	64.0
Kenya	17.8	26.2	25.6	21.6	15.4
Madagascar	30.1	34.2	37.0	20.9	20.5
Rwanda	52.8	66.5	71.2	65.1	20.8
Tanzania	13.7	23.1	31.0	22.8	20.4
Uganda	43.6	72.4	93.3	90.6	62.0
Cotton					
Benin	7.8	24.8	20.8	31.6	34.0
Burkina Faso	9.9	29.1	42.6	34.7	54.2
Mali	7.2	28.6	32.8	45.4	44.3
Sudan	53.5	53.3	38.0	43.2	24.3
Chad	66.8	39.0	35.3	47.7	43.3
Togo	3.9	1.6	10.4	16.9	39.5
Tanzania	15.2	13.2	12.1	15.9	19.5
Groundnuts					
The Gambia	92.9	89.1	44.4	36.9	36.7
Senegal	75.3	42.9	16.0	17.7	9.7
Rubber					
Liberia	19.8	13.6	19.1	24.5	3.8
Sugar					
Mauritius	90.7	77.3	44.3	36.9	24.2
Swaziland	27.8	32.9	34.9	28.8	17.1
Fiji	55.0	55.0	49.5	35.2	34.0
Tea					
Kenya	10.8	13.3	19.4	24.6	19.3
Malawi	27.0	19.0	16.2	11.7	6.5
Rwanda	2.5	8.5	10.4	15.6	11.8
Tobacco					
Malawi	37.3	47.3	51.6	64.4	66.7
Zimbabwe	22.8	13.9	18.8	20.2	29.0

Sources: Akiyama and Larson (1994); FAO trade data.

Most Caribbean trade is oriented towards the US, and Pacific trade to Japan and Australia. The EU, however, is an unexpectedly significant export market for the ACP Pacific states (*see* Table 3). This is largely due to trade preferences and the impact of Stabex arrangements (Grynberg, 1997).

Table 3 Pacific exports (from ACP countries) to the EU, 1990-1994

Country	Total exports (%)
Papua New Guinea*	16.4
Solomon Islands†	20.5
Fiji*	25.6
Vanuatu†	50.6
Tonga†	2.4
Samoa†	16.4

Source: Grynberg (1997)

Notes: * 1990-1994 average
† 1990-1992 average

Official regional trade between African countries has been slow to grow despite the emergence (and decline) of various trading zones such as the Southern Africa Development Community (SADC), the Preferential Trade Area for Eastern and Southern Africa (PTA) and the Common Market for Eastern and Southern Africa (COMESA).

Official trade between African countries in 1994 accounted for 9.5 % of Africa's total imports, compared to 7.3 % in 1970 (African Development Bank, 1996). Purchases of food for disaster relief, and food aid programmes by relief agencies have contributed to an increase in regional trade. Although many African countries have similar production systems, opportunities for trade arise from price differentials or disruption to domestic production, such as civil war.

Informal cross-border trade

There is growing recognition of the importance of informal trade between African countries. Such trade is unregistered and therefore not captured, or only crudely estimated, in official trade statistics. In a study of unrecorded cross-border trade between Malawi and its neighbours, Minde and Nakhumwa (1997) estimated that formal exports were 69 % of estimated informal cross-border exports. They also found that substantial volumes of food commodities are traded across borders. Several recent studies of other African countries (*see*, for example, USAID 1996,

1997,1998a and 1998b) indicate that informal trade may be similar in value to official regional trade between sub-Saharan countries. Partly because of limited domestic industrialization, and because of major distortions induced by government policies, the bulk of such trade is in agricultural and, particularly, food commodities and products. However, where there is a reasonably well-developed manufacturing base (for example, Kenya) industrial goods can also enter informal trade.

The significance of informal trade stems not just from its scale, but also because:

- it is linked with domestic trading (itself often under-recorded) with major implications for rural development;
- food crops are often involved, with implications for national and regional food security; and
- small-scale farmers and women may be involved, either directly in marketing and/or as suppliers of produce, with significant implications for livelihoods.

Underlying factors contributing to informal trade include the same components as those stimulating formal trade flows, for example, economic relationships and differing agro-ecological zones, etc., but also a wide array of additional components (*see* Box 2).

Informal trade can be characterized as comprising two main elements. These are, firstly, long-established, relatively stable trade patterns based essentially on agro-ecological, locational and socio-economic factors and, secondly, short-term trade often generated by policies and/or exogenous shocks, which is often highly unstable. Thus long-established and more stable trade relationships may arise from geographic proximity or cross-border ethnic ties. Short-term trade may arise from implementation of duty or tax changes, or through drought or political upheavals – as a consequence the scale, direction and composition of trade may alter radically over a short period. Some short-term components may become relatively entrenched, for example, those induced by policies for the agricultural sector.

Some external shocks, notably political instability, can work in both directions, for example, political upheavals may diminish trade because of increased risks, but latterly provide opportunities to meet shortfalls in food production in the affected countries. Long-term instability may constrain trade overall through chronic impoverishment (although even here, food-aid flows may create opportunities).

Box 2 Factors contributing to informal trade in sub-Saharan Africa

1 *Agricultural and locational factors:*

- differing agro-ecological zones create opportunities for (food commodity) trade;
- differing seasonal patterns of crop production between neighbouring countries stimulate trade (especially where there are two harvest seasons, as in Uganda, and only one in neighbouring countries);
- landlocked states, which automatically (aside from airfreight) lead to greater cross-regional border trade; and
- geographic location, e.g. remote regions with better access to adjoining countries.

2 *Underlying economic and cultural factors:*

- comparative advantage – although this may be substantially modified by relative competitive conditions;
- competitive advantage, e.g. infrastructure and marketing systems (plus associated policy discussed below);
- long term ethnic ties across ‘artificial’ international borders, including traditions of trading; and
- impacts of long-and short-term cross border migration.

3 *Policy-induced factors:*

- uneven implementation of liberalization policies by adjacent countries creating incentives through price distortions and /or duties imposed on trade;
- one-off policy interventions, e.g. bans on food exports at a time of food crisis;
- as an adjunct to food-aid flows (e.g. sales of aid materials which fund subsequent informal trade);
- official inertia and/or corruption partly induced by policies that deprive trade-monitoring systems of sufficient resources and coherence. (Once established, corrupt vested interests may become entrenched);
- decentralization policies which may enable the imposition of local fees, etc.;
- duty exemptions on small-scale transactions (which encourage breaking bulk before crossing the border); and
- lack of knowledge of regulations and duties, which may facilitate corrupt practices.

4 *Exogenous shocks:*

- climatic factors, especially drought in sub Saharan Africa;
- major pest and disease outbreaks, e.g. African cassava mosaic disease (ACMD) in Uganda; and
- political instability and upheavals.

The impact of such trade is often large in border regions, but there is also some evidence of significant longer distance flows and wider in-country impacts. Whilst much formal trade (whether regional or otherwise) is dominated by men, informal trade, especially shorter distance, smaller-scale trade often includes substantial participation by women. Although recent studies have given some understanding of the scale, composition and border location of trade flows, much less is known about the associated marketing chains (including marketing efficiency), participants, and impacts in supplying and receiving regions. Such evidence that does exist suggests that impacts may be quite substantial on a localized basis.

Uganda provides an example of the complex of factors which influence informal cross border trade and their impacts on the rural and trading sectors (*see* Box 3).

Box 3 Informal agricultural trade in Uganda

The broad pattern of Uganda's informal trade is exports of agricultural commodities to all neighbouring countries, coupled with Ugandan manufactured goods to Sudan, Congo and Rwanda. Imports include food items and manufactures – the latter exclusively from Kenya. Estimates of the scale of informal export trade from Uganda vary, but major commodities are maize, beans and dried/salted fish. Additional items include sorghum, cassava, matoke, milk and eggs. During the 1990s it is estimated that about 50% (by volume) of total regional exports of maize and beans have been through informal channels. Major flows of maize are reported into Congo (60%) of informal regional exports and Kenya (35%), and similarly for beans, but the relative importance is reversed (Kenya 65% and Congo 25%). Fish is a long-standing export to Congo, usually in dried/salted form, and may be the most important export to Congo in value terms. There are also major informal shipments of fish from Lake Victoria to Kenya.

Border regions usually act as supplying areas, although some may be constrained, such as Arua, where there are exports of dried fish and imports (often 'unofficial') of food crops from Congo. However, there is evidence of significant supplies from further afield within Uganda. Examples include maize production in the Masindi region, beans (and also maize) in Kasese, and matoke and milk in Ntungamo. Markets within these producing regions may act as bulking-up centres for longer distance informal trade, including produce grown within the region and from elsewhere (e.g. maize and beans from Rwimi and Bundibugyo are bulked up in Kasese). The main wholesale markets in Kampala – Kisenyi (maize) and Owino (beans and groundnuts) – also act as transit points for informal trade, especially that to Kenya and Rwanda. Much groundnut trade through Kampala represents crops produced in Congo for on-sale to Kenya. The focus of trading activity on Kampala markets is further stimulated by aid shipments, whose delivery in Kampala is often a specified requirement.

A number of factors contribute to regional trade, including long-term informal trade relationships. The country is landlocked, has a relatively more secure climatic regime than most of its neighbours, and benefits from two harvesting seasons per year. The country also incorporates, or has substantial access to, a number of major lake fisheries. As a consequence, both agricultural and fishery produce figure strongly in informal (export) trade. Ethnic ties are strong across a number of border regions, such as along the southern Kenyan border, with Congo (Democratic Republic) and Rwanda. In some cases even for a country of relatively modest size (in African terms), trade is prompted by relative isolation from the rest of the country, e.g. for maize exported from the Kapchoro region to Kenya.

Many of the short-term factors indicated above also apply specifically to Uganda. Economic reforms have removed most price distortions and inefficient (parastatal) marketing institutions. Coupled with a relatively efficient marketing and transport infrastructure, such policy initiatives have encouraged informal trade with neighbouring countries where controls are still imposed to varying degrees and marketing infrastructure is less developed. Such incentives have been enhanced by one-off policy initiatives such as the 32% duty imposed upon maize imports by Kenya in 1998, and the ban on food exports by Tanzania at a time of food shortage in 1995.

However, exogenous shocks have also played a very substantial role in generating short-term informal trade movements. Political instability in Rwanda, the Sudan, and most recently in Congo, has been a major factor stimulating informal trade (and aid) flows. Instability has also been induced through the effects of African cassava mosaic disease which (albeit temporarily and at different times in different regions of the country) has depressed production of a major preferred food staple. Subsequent recovery in cassava production in a number of regions has freed surpluses of grains and legumes for cross-border trade, the latter being preferred for trade in any event due to their storability.

Instability arising from external shocks is complicated by local procurement for food-aid shipments in response to some of these crises. Trade flows induced by food-aid purchasing (which can often spill over into substantial informal trade) can themselves be highly de-stabilizing. One contributing factor is the limited knowledge and understanding of production and trade flows in affected regions on the part of aid agencies (although they would claim otherwise), coupled with the sheer scale of required shipments. For Uganda, aid is confined largely to maize and beans, but these are also large components of informal sector exports. At times, aid procurers have also switched to suppliers outside the region (e.g. for US yellow maize) as a cheaper source.

In Uganda, instability in trade (especially informal trade) has had an impact on private sector trading companies which have emerged following liberalization. Exposure to such instability can pose acute problems for such new enterprises, especially in the context of shifting aid and policy priorities. Aside from the occasional ‘bonanza’, the effect is likely to be a disincentive overall and to foster the retention of informal activity as a hedge or ‘cheaper’ alternative.

Commodity breakdown

Table 1 showed that in sub-Saharan Africa agricultural exports account for 25-50% of total trade in 13 countries, more than 51-75% in 10 countries, and over 75% of total exports in six countries. The proportions in the Caribbean and Pacific states follow broadly similar patterns, although there is less extreme dependency on agricultural exports. Only one Caribbean state, St Vincent, and one Pacific state, Vanuatu, are more than 75% dependent on agricultural exports.

Beverage crops, tobacco, cotton, sugar, timber and horticultural products are important exports from ACP countries to developed country markets. In sub-Saharan Africa (SSA) nine crops accounted for over 70 % of agricultural export earnings for more than 30 years: bananas, cocoa, coffee, cotton, groundnuts, rubber, sugar, tea and tobacco (Digges *et al.*, 1997) and this proportion is only declining slowly (*see* Table 4).

Table 4 Percentage share of SSA's agricultural export earnings by crop, 1961-1996

	1961-69	1970-79	1980-89	1990-93	1994-96
Bananas	1.3	0.7	0.5	1.0	1.1
Cocoa	16.1	20.6	21.9	14.8	15.0
Coffee	19.2	25.9	26.7	11.1	13.3
Cotton	10.0	9.1	8.5	10.7	9.7
Groundnuts	10.9	5.5	2.1	1.8	1.2
Rubber	2.6	1.7	2.1	2.0	2.4
Sugar	4.0	4.7	5.8	9.3	7.3
Tea	2.1	2.6	3.7	4.3	3.5
Tobacco	3.9	3.2	4.8	8.0	7.9
Nine major crops	70.1	74.0	76.1	63.0	61.4

Sources: Akiyama and Larson (1994); FAO trade data

Although fisheries are an important natural resource for many ACP states, it is only in Mauritania that the export of fishery commodities accounts for a very large proportion of export earnings (40% in 1994). Fisheries exports are nevertheless significant in Madagascar, Senegal and the Solomon Islands, where they accounted for 23%, 18% and 14% of total exports respectively in 1994 (FAO, 1994).

Many ACP countries, however, trade in *fishery access*, whereby foreign companies and/or governments negotiate rights to access international waters (*see* Box 4).

Box 4 Trade in fishery access*

Until the 1970s, international trade in marine products was dominated by distant water fleets from Eastern and Western Europe and the Far East (China, Taiwan, Japan) which operated in international waters. With few exceptions (e.g. Ghana), developing country fleets operated in territorial waters 3-12 miles from their coasts, although there was an active local export trade in many places (e.g. West Africa). In the 1970s, unilateral declarations of jurisdiction over 200 nautical mile zones by many coastal states led to the first international negotiations for access to fisheries resources. This development was driven, and ultimately consolidated, by the United Nations' Convention on the Law of the Sea (UNCLOS), which was signed in 1982, and entered into force in 1994.

UNCLOS gave recognition to Exclusive Economic Zones (EEZ) which deprived distant water fleets of large areas of sea where they had hitherto fished. Ninety five per cent of fish stocks and 35 per cent of the ocean came under the jurisdiction of coastal states, largely from less developed countries. In order to safeguard the supply of fish to international markets and maintain economic activity and employment, distant water fishing nations (DWFN) began to negotiate fishery access agreements, which for coastal states in ACP regions created revenue earning opportunities, through the sale of limited access rights to EEZ.

Under UNCLOS there are various restrictions intended to prevent developing countries from being disadvantaged by DWFN activities, but coastal states must make provision for foreign fishing operations to access the surplus allowable catch. The definition of surplus allowable catch is based on optimum levels of fishing for a fishery, although UNCLOS is not specific about how levels should be determined, leaving this to the coastal states. In theory, UNCLOS could have resulted in distant water fleets being excluded from many regions they had traditionally fished, but this was not the immediate case and these fleets' catch in ACP fishing areas only declined in the late 1980s, largely as a result of reduced operations by Eastern European fleets.

Fisheries agreements take a variety of forms. EU DWFN negotiate as a bloc with individual countries, and at present there are 15 EU-ACP agreements costing over $285 million (35% of the EU Common Fisheries Policy budget). Many agreements are negotiated bilaterally; Japan for instance (the largest single importing nation) imports $12 billion of fish annually and the government and fishing companies work together in negotiating with individual ACP states.

There are numerous but largely uncatalogued fishing company-to-coastal state government agreements (e.g. in The Gambia, the Falkland Islands, Indonesia). Joint ventures are common and usually involve a fishing company from a developed country concluding a formal business arrangement with a private person or entity from a developing country to create a new company in the developing country. Some distant water fleets operate under flags of the coastal state (e.g. Chinese and Korean-owned vessels in Senegal, Mauritania and Guinea-Bissau). There are also instances where coastal states have acted in consort to negotiate access to their waters with DWFN (e.g. the Nauru Agreement which sets forth terms and conditions of access to several of the fisheries zones of the south Pacific).

Fisheries agreements involving DWFN have been blamed for decline in the fish stocks in ACP coastal waters, and also for damaging the development of host country capture and post-harvest fisheries capacity. However, the evidence is inconclusive. Financially,

the agreements provide foreign exchange for many economically constrained states, and it is for these states to decide whether this is reinvested in local fisheries or other developmental areas. The fisheries are exploited by artisanal and national fleets as well as DWFN, and it is hard to say whether any single fleet poses a greater threat than another to sustainability.

This is not to deny that the sustainability of fisheries is a major problem or that agreements are often negotiated to the advantage of DWFN. Agreements often contain high elements of subsidy to distant water fleets that undermine a market-driven approach to sustainability. At the same time, ACP states do not have the monitoring or enforcement capacity to implement a regulatory approach.

* Written by Mick Blowfield, NRI

Sources: SEFA (1997)

Value added

For many developing country traditional commodity exports, processing in the country of origin is limited to drying and curing, with some basic processing depending on the product. Rum distillation, an important industry in the Caribbean and Mauritius, is perhaps an exception.

The general lack of processing is partly due to the nature of the product; that is, some products do not require much processing (for example, bananas and other horticultural products). It can also reflect the demands of the market whereby tropical products of various origins are blended together by the importing country to meet customer tastes, for example, coffee, cocoa and tobacco.

Tariff structures also play a large part in determining how much value it is worth adding in the country of origin. Developed country tariffs have tended to escalate the greater the degree of processing, with the effect of discouraging investment in processing technology in the country of origin. Substantial reduction in tariffs was a major objective of the developing countries in the Uruguay Round, and this goal was to some extent achieved (WTO, 1996). However, a study of EU tariffs applied to primary commodities exported from SSA shows that because of tariff preferences, tariffs have not generally been a major constraint to the further processing and export of African commodities (WTO, op.cit.).

Given the generally lower wage rates in the ACP countries, it makes sense for basic processing to be carried out there. Yet a number of factors combine to limit downstream value addition:

- capital constraints (to make initial investments or to update technology);
- skill shortages;
- scales of operation which are too small for the typical size of turn-key plants;
- local markets which may be too small to justify production to meet local demand; and
- risk associated with meeting exacting quality requirements for finished product exports.

Nevertheless, there are important examples of countries which have exploited low labour rates and critical mass to add more value in the country of origin. Mauritius has a very well-developed garment industry (based on imports of cloth), that supplies finished garments to well-known developed country retailers. Having developed considerable critical mass and skills in the sector, Mauritius is now seeking to strengthen design skills, to supply more high-value designer garments. Many people involved in textiles in Zimbabwe regard this strategy as the only way out of their own poor-quality, high-cost conundrum. Zimbabwe has been very successful in adding value to horticultural exports, supplying European supermarkets with 'prepared' fresh vegetables, in retail packs.

Declining terms of trade

A country's terms of trade refer to the ratio of an index of its export prices to an index of import prices. When import prices rise more quickly, or fall more slowly than export prices, the terms of trade are described as declining. Although there is considerable debate about the magnitude of change, many studies have established declining terms of trade for exporters of primary commodities who must import manufactured goods. The Economist's Commodity Price Index has charted the real value of 24 industrial and food commodities for over 150 years. It recently claimed that "the industrial commodities index has fallen this year to a record low, in real terms – 80% below its level in 1845" (*Economist*, 17.4.1999, pp. 107-8). In 1986 real commodity prices were below the very low point reached in 1932, and by 1991 the World Bank index of non-oil commodity prices had fallen by over 40 % from its 1980 level (African Development Bank, 1996).

The long-term decline in commodity prices results from:

- a shift in economic output from a heavy industry base to service and information technology, such that any given increase in GDP results in a smaller increase in the demand for raw materials; and
- technological advances that have both increased the supply of commodities, by higher rates of mineral extraction and crop yields, and reduced demand, as plastic has replaced metal, or fibre-optics have replaced copper wire.

Many developing countries are highly exposed to terms of trade shocks because their exports remain concentrated in primary commodities (Collier and Gunning, 1997). Deteriorating prices of primary commodities both in absolute terms and relative to the prices of manufactured goods, experienced by the ACP countries, reduce export earnings, government revenues, capacity to import and national incomes. This has a serious impact on economic development in those countries affected.

FACTORS WHICH INFLUENCE AGRICULTURAL TRADE

Global trade liberalization

> "Globalisation is the process of integration in product markets and financial markets" (Collier (1997) p.1).

Globalization at the present time is being spurred by growing trends towards reduced trade barriers, integration in world financial markets, and advances in telecommunications and information technology (IT) which facilitate trade and investment decisions and transactions – even at a distance. For example, "... it is now possible to send [knitted garment] prototypes from a small town in South India to Germany within 24 hours so that closely monitoring product development from 6000 miles away is relatively straightforward. ... It is also easier to make the supplier respond quickly to changes in demand" (Banerjee (1997) p.11). This type of trade can only occur where there is policy conducive to trade (both in exporting and importing countries), and where technology advances permit the rapid exchange of information, goods and finance.

Trade barriers have come down, in particular with the phased elimination of quantitative restrictions. Negotiations under the General Agreement on

Tariffs and Trade (GATT) took place in seven rounds. Under the most recent round, the Uruguay Trade Round, whose Final Act was signed in 1994, two sectors, agriculture and textiles, were brought back under the normal rules of the trading system. The Uruguay Round also established a framework for regulating services trade, including rules on capital and labour movement and trade-related aspects of intellectual property. The focus of the Uruguay Round was broadened to include a wide range of non-tariff barriers that are used to protect domestic producers. GATT was replaced by a more powerful and permanent World Trade Organisation (WTO) which has a greatly strengthened and refined system for monitoring and enforcement (ODI, 1995b; LeQuesne, 1996). The main goals of the WTO system of rules are: to improve market access; to support non-discriminatory treatment of imports *vis à vis* domestic products; to reduce competition-distorting non-tariff measures; and to increase the transparency of domestic regulatory regimes (Cottier, 1998).

Many developing countries have become members of the WTO and each member state has an equal vote. Nevertheless, imbalance in power relations between the richer and poorer countries is still felt to be an issue. Many developing countries feel that the provisions of the Uruguay Round do not adequately address their needs and that they are worse off because of the introduction of new trading rules. African countries are considered to have gained the least from the Uruguay Round as they faced fewer tariffs and had most to lose in trade preferences and, as food importers, also benefit least from increased food prices (ODI, 1995b). However, Collier (1997) points out that African countries participated least during negotiated reductions in barriers during the Uruguay Round, and that they probably would have been able to achieve reductions in the barriers they face if they had offered to reduce some of their own import barriers.

To facilitate ACP representation in trade discussions, the EU has agreed to contribute to the cost of establishing an ACP office in Geneva, which will enable the ACP to be permanently represented at the WTO. However, of the 77 ACP countries, 16 are not WTO members and four only have observer status.

Macro-economic policy

> "... in the late 1970s exceptionally high commodity prices for Africa's major exports (oil, tropical beverages, phosphates) led to unrealistic expectations, overextended borrowing and an unmanageable debt burden. The substantial imbalances on external and domestic public accounts created during this period eventually compelled many African governments to adopt macroeconomic policy (structural adjustment) reform programmes. Declining revenues from agricultural exports and rising food imports led to the inclusion of agricultural sector reforms in many of these reform programmes." (Jaeger (1992) p.1).

Devaluation is a key component of the 'standard' adjustment package. Overvalued currencies are effectively a tax on exports, which shifts production towards non-tradables. Imports seem cheap when priced in over-valued local currencies. Over-valued currencies and parallel markets for foreign exchange became the norm in post-independence Africa – a situation that has only recently been reversed (in most countries). These black markets increased uncertainty, and further deterred investment in exports, which made bad trade balances worse.

> "The general shortage of foreign exchange has directly or indirectly affected trade. In the majority of SADCC countries foreign exchange shortages have led to the imposition of strict import licensing/foreign exchange allocation systems, administered by government. These systems have directly restricted the levels and timing of imports of particular products and to particular firms" (Jaffee *et al*. (1992) pp.82-83)

Structural adjustment programmes have sought to correct these distortions and to create the policy, infrastructure and institutional conditions needed to strengthen export performance. Inevitably, commitment to the necessary policy and direct intervention has been variable – across countries, and between sectors. Whilst there have been some relatively unequivocal successes (such as coffee in Uganda), there is still much to be learned about the timing, nature and co-ordination of measures required.

Trading infrastructure and transaction costs

Macro-economic and agricultural policy reform alone is not sufficient to boost agricultural trade.

> These policy reforms have done little or nothing to alleviate structural, supply-side weaknesses and the high risks and transaction costs which the private sector [in Africa] faces as a result of these structural inadequacies. (Jaffee and Morton (1995) p.456).

Market reforms have led to considerable emphasis on creating an enabling environment for private enterprise, particularly stressing the export sector. However, physical and institutional infrastructure is also important. Rural roads, telecommunications, functioning cold chains and airport or port facilities are essential components of the physical infrastructure required to sustain or develop agricultural trade. High internal transport costs (considerably higher than in other continents) are a serious impediment to African exports.

In 1991, freight and insurance payments on African trade amounted to 15.1 % of export earnings, while the average for all developing countries was only 5.8 %; these costs have risen in Africa while falling elsewhere (Collier and Gunning, 1997). The provision of public utilities is poorer in Africa than elsewhere. The cost of electricity is high and supply unreliable. Africa has one-tenth the telephones per capita of Asia and these are frequently out of order (Collier and Gunning, 1997).

In addition, for trade to flourish there is a need for a transparent legal and regulatory framework, including company bankruptcy laws and investment codes. In many developing countries, adherence to these institutions is poor or non-existent. Some countries still operate tightly controlled or clumsy foreign exchange systems that reduce private incentives to trade, although highly restrictive direct taxes on exports have now largely been removed. Implicit taxes through exchange rate overvaluation and excessive margins of parastatals have also affected the operation of trade (Collier and Gunning, 1997). Taxing international trade, whether directly or implicitly, was a relatively easy way for governments to collect revenue.

The private sector is now recognized as an important agent of development, but its growth is often constrained by shortages of capital

and of entrepreneurial, managerial, technical and marketing skills. Where market opportunities exist, small and medium enterprises are often constrained by lack of pre and post-shipment credit facilities, and by the lack of business information and market intelligence (WTO, 1996).

Rural institutions (both formal and informal) are also important, particularly given the role of resource-poor smallholders in the production of export crops. Efficient systems to supply inputs and bulk up output help reduce costs and contribute to export development through increased competitiveness. Although the activities of the often inefficient parastatals have now been largely checked, functioning private models have yet to emerge in many countries which have recently 'adjusted'.

Foreign direct investment and capital inflows

Foreign private financing and investment flows to private sector borrowers are seen as vital for economic growth. In Asia and Latin America capital flows have tended to be to the private sector, whereas in Africa aggregate net capital flows are still largely official aid flows between governments, or between international institutions and governments. Africa's poor performance in attracting capital may be explained by its difficulties in improving economic policies, its lower overall economic performance, its persistent debt problems and the greater uncertainty facing investors, both domestic and foreign (WTO, 1996).

> ... the CFA franc zone countries and Kenya and Uganda have begun to attract private capital flows as policy reform efforts have gathered strength and structured adjustment measures have helped to maintain gains in competitiveness resulting from more appropriate exchange rate policies. (IMF (1995) quoted in WTO (1996) p.21).

Accumulation of capital within Africa has been very modest. The ratio of capital to output was lower in Africa in 1990 than it had been in 1965. This has been attributed to poor factor productivity growth and to capital flight: African wealth owners are estimated to hold more than a third of their portfolios outside Africa. It is estimated that if Africa reduced its capital flight to that of Asia, its capital stock would increase by 50 % (Collier and Gunning, 1997).

Particular issues affecting trade in agricultural commodities

Primary commodities dominate ACP trading patterns, and the foregoing discussion has highlighted some of the key factors which influence this trade. However, it is also useful to summarize briefly some of the generic factors that affect both exports and imports of agricultural products. The supply of agricultural products produced in developing countries has some particular characteristics, including:

- risk and uncertainty over export volumes, harvest dates and prices relating to weather, pests and disease, and natural phenomena such as *El Niño* (which affects fish stock movements as well as weather patterns);
- risk associated with product perishability;
- relatively little value added in African countries, with the effect that many agricultural exports have high volume to value ratios;
- generic product characteristics such that many products can be produced widely without any product difference detectable by consumers;
- investment pay-off lags, particularly for perennial crops that represent an important share of African agricultural exports, for example, coffee, cocoa, tea;
- potential for sweeping changes in production, as a result of the current biotechnology revolution;
- a legacy of heavy state involvement in the marketing of traditional agricultural commodities, now largely replaced by private enterprise, but still subject to teething problems in many countries;
- production by many small-scale producers, who are often located in remote areas, are poorly served by infrastructure, and have poor access to information and services; and
- sometimes inappropriate, inadequate or inconsistent policy, regulation and infrastructure, making export operations difficult or unreliable.

On the demand side, many agricultural commodities face declining markets for natural products and/or development of artificial substitutes; price inelastic demand; stiff competition and the ability of importers to switch to more competitive sources; exacting trade regulations reflecting the *food* status of many agricultural exports; and (for many commodities) international trade dominated by a relatively few large companies. In addition, other demand-side factors affect international trade more

generally (such as economic cycles in importing countries and trade barriers).

There is concern that a new WTO agreement, the Sanitary and Phyto-Sanitary (SPS) agreement, which replaced technical barriers to trade (TBT) and establishes a framework of rules within which standards should be implemented, will have an increasingly significant impact on market access as other barriers to trade are removed. SPS measures can be invoked by an importing country to prevent an agricultural import if it can be shown there is a real risk of endangering the health of humans, plants or animals if the product were to be imported. There is concern that SPS measures could be used to prevent imports from developing countries which could reduce their ability to benefit from trade liberalization.

AGRICULTURAL TRADE AND SUSTAINABLE DEVELOPMENT IN ACP COUNTRIES

The discussion above has illustrated the importance of agricultural trade in ACP exports. The agricultural sector has wider economic importance too. In sub-Saharan Africa agriculture accounts for 80 % of total employment and 50-90 % of total recorded merchandise exports (Jaeger, 1992). Although agriculture represents only just over 30 % of African GDP, one- to two-thirds of manufacturing value added in most countries is based on agricultural raw materials, and many services are linked to agriculture.

The wider economic role of the agricultural sector means that agricultural trade expansion may have far-reaching development impacts, provided any negative consequences can be limited. There is concern that trade expansion may be based on lower social and environmental standards in developing countries, and that transnational companies, in particular, are well-placed to exploit this (LeQuesne, 1996). Downward pressure on standards is a threat as countries compete with each other to offer foreign investors the most favourable conditions. Under such circumstances, rapid trade liberalization might undermine livelihoods.

The following sections explore the poverty and development impacts of agricultural trade, drawing on examples of both good and bad experiences.

Livelihoods and employment

The poorest groups in society lack skills. Many lack land too. Their livelihoods are conducted largely in the informal sector, but they may nonetheless benefit from increased demand for unskilled labour. They generally have diverse income sources, including remittances. In Africa, many of the rural poor have access to land, or to common property resources. Some of these resources are prone to degradation through over-use, but the capacity of the poor to make these resources more productive through investment is extremely limited.

The extent to which agricultural trade can improve the livelihoods of the poor depends on the extent to which it contributes to overall economic growth, and the extent to which the poor are able to participate in the benefits of that growth, either through direct employment in export sectors (which tend to labour-intensive in developing countries), or through knock-on effects in other sectors. Reforms intended to promote trade may have additional effects which negatively affect the livelihoods of the poor. The public sector has shed workers, including unskilled labourers employed in support of public enterprise and government. In some places there has been a marked effect on the demand for street food (often serviced by the poor), following redundancies and wage restrictions in the public sector (as observed, for example, in Yaounde, Cameroon's administrative capital). Distortions in policies may have protected inefficient industries, and trade reforms may bring unwelcome exposure to competition and redundancies. The benefits of economic adjustment, if realised, are likely to be long run; in the short run there will be winners and losers, with possibly little discernible net improvement in employment.

Trade is considered to benefit most, though not all, workers. As trade becomes more open, there is increased demand for lower-cost labour which should benefit people in developing countries (World Bank, 1995). This assumes that all other factors required for export-oriented business are in place. Countries which are more integrated tend to grow faster, while countries that lag behind in global integration are amongst the poorest (World Bank, 1996). There is a high correlation between export performance and the share of manufactured goods in merchandise exports, as well as a similar positive correlation between exports and both the share of investments in GDP and the share of manufactures in GDP (WTO, 1996).

Recent studies on growth linkages reinforce earlier results. An additional dollar of exogenous farm income (earnings from agricultural trade, for instance) was seen to increase total income by between $ 1.96 and $ 2.75 in Burkina Faso, Zambia, Senegal and Niger (Delgado *et al.*, 1994).

> Increments to the incomes are spent on non-tradables that rural people consume: dairy, fruits, vegetables, some starches, services, local agricultural implements, and consumer manufactures.
>
> All (except the latter in most cases) can mobilise rural labour, capital and land when new demand is widespread...
>
> For growth linkages to occur, the initial income shock must be regularly reproduced. Only the sustained production of tradable commodities can do this. (ibid., pp.24-25).

Poverty

Broadly speaking, poverty impacts of agricultural trade may be generated through employment, remittance income, effects on consumption, and the availability of, or access to, the services poor people use. The effect on *risk* and *uncertainty* is also important. Poor people are vulnerable because they lack resources to deal with income shocks or unforeseen expenditure. Changes in the variability of income and expenditure affect their vulnerability.

The general thrust of structural adjustment to shift terms of trade in favour of agricultural exports is considered to benefit rural populations (Engberg-Pedersen *et al.*, 1996). However, where export crops are dominated by large-scale producers and foreign companies, it has been argued that they, rather than the rural poor, are likely to receive the major benefits from trade expansion (LeQuesne, 1996). Certainly there is concern about the short-term impacts of structural adjustment on the poor, resulting in the implementation of programmes intended to mitigate these effects. However, it is almost impossible to generalize about the long-term effects. The empirical evidence on poverty impacts is patchy and contradictory. Many structural adjustment programmes are still young; the extent and timing of policy change have been extremely variable. Clearly the lessons are in the detail – the focus of much on-going research. Yet there may be cause for optimism.

> [In Africa] growth multipliers are higher for income targeted to the poor, contrary to conventional wisdom for land-constrained Asia. There is no trade-off between growth and equity. (Delgado *et al.*, 1994, p.24).

This is because poor people in Africa farm their own land, and spend additional income on consumption (and spend smaller budget shares on tradables than the better off). Additional income is immediately recycled in the local economy, rather than channelled into landlord profits, savings and investment (with lagged and more dilute poverty impacts).

Where agricultural trade leads to wage employment, in agro-processing or plantation work, this may create direct employment opportunities, or benefit the poor through remittances.

Consumption effects are also important. Food accounts for an important share of poor people's expenditure, and in many parts of Africa even farmers may be net purchasers of food. A devaluation-induced boost to agricultural trade increases the cost of imports, and hence increases demand for locally produced food. The poor are less affected than the better-off by the rising cost of imports (because they spend lower budget shares on imported goods). The urban poor in coastal cities, where imported rice is an inexpensive staple, may be an important exception. Yet if domestic food production is unable to keep pace with growth in demand (as indeed has happened in much of Africa), all net purchasers of food will face higher costs. This is a key determinant of the ability to realize the benefits of agricultural trade. If domestic food supply does not keep pace with demand "... prices of local consumer items may rise relative to export prices, cutting into the profitability of export agriculture." (Ibid., p.26). This provides a very clear policy signal on the need to support domestic agriculture in tandem with export promotion, and reinforces the multiplier arguments, that is, that the export agriculture benefits have wider impacts in the rural economy (and urban areas too).

Improved access to affordable health and education services is an important aspect of poverty reduction. Agricultural trade may affect access to the extent that poor people have more income, or to the extent that there is economic growth and better provision of public services. Improved governance and increased participation may also improve the targeting and efficiency of service provision. The mechanisms for this fall outside

the scope of this publication but a sister publication on Institutional Development reviews options for improving rural institutions and services (Griffiths *et al.*, 1999).

The empirical evidence on risk and uncertainty is weak and patchy. Some authors argue that liberalization has led to increased uncertainty with greater exposure to market forces (Hubbard, 1995), whilst others argue that the former poorly managed parastatals were unreliable, and therefore less predictable than their policy and statements would imply (Jones, 1996). Income diversification can reduce risk. Agricultural trade with growth multipliers should permit higher incomes and additional sources of income (for individuals or households).

Gender

Women may participate in the benefits of trade directly, or through multiplier effects. However, there may be some significant qualitative differences in their participation compared to that of men (for instance, in relation to their control over resources and income).

In Africa, women tend to be less involved (less decision-making and control, though they may still contribute labour) in export crops than men. There is much anecdotal evidence to show that increased commercialization of crops formerly grown by women (horticultural crops, for instance), tends to displace women, or at least dilutes their exclusive role, because men become more involved. Increased commercialization may therefore increase women's workload without a commensurate increase in income or expenditure decisions. Once again though, it is difficult to generalize. There is considerable geographical variation in these patterns, and changing economic circumstances, migration and AIDS-related death and illness may all increase the participation of women in non-traditional areas.

For those in formal sector employment, increased trade may generate additional opportunities, but while they only have low cost, unskilled labour to offer, working conditions will not improve. (LeQuesne, 1996). In foreign-owned factories, particularly those in export processing zones, job security, wages and working conditions are often very poor (ETI, 1998).

Improvements to agricultural trading systems and developments such as fair-trade initiatives may assist women farmers. Women in the ACP countries produce most of the food grown and they may benefit from better trading opportunities. Women often form the bulk of the casual labour-force in large-scale commercial agricultural operations, and larger, stable export markets may benefit them.

Although women tend to be primarily involved in the non-formal sector, their roles in cross-border informal trade and in internal trade can be important (for example, in West Africa, where they are important players in domestic food marketing). In a study of such trade between Malawi and its neighbours, Minde and Nakhumwa (1997) recorded that women were involved in trading goods, although several factors, some cultural, had an impact on the type of activities that they undertook in cross-border trading. For example, women rarely rode bicycles and were limited to carrying products on their heads. Transactions in some commodities tended to be gender segregated with women dominating in the trading of vegetables and firewood. In unpopulated border areas women hired male couriers to avoid customs checks.

Engberg-Pedersen *et al.* (1996, pp.63-64) also provide interesting evidence from recent studies in Burkina Faso, Uganda, Tanzania, Zimbabwe and Ghana:

> Strong evidence exists ... of a continued expansion of women's participation in informal trade during the adjustment period. ... All the same it seems that the *individual* incomes of women informal sector traders, who are mostly concentrated in the lower ranks of food, fruit and vegetable trading, have probably dropped, since it is in these areas that competition has been most intense...
>
> There is evidence of the entry of some women to certain high-profit branches of informal trade such as international trading of high-value items which, in the context of trade liberalisation, has recently become legitimised and has apparently expanded. However, it is almost entirely better-off women who are involved and it is still unclear whether women will be able to enter the high-value branches of domestic trade (e.g. purchase of export crops) opening up for private operators in a number of countries.

Environment

Unchecked and unregulated expansion of trade, direct foreign investment and economic growth can have disastrous consequences for the environment. Examples abound: intensified unsustainable logging of tropical hardwoods; environmental pollution stemming from multinational factories located on the Mexican side of the Mexico/Texas border; industrial pollution in southern China; intensive industrial shrimp trawling in the Bay of Bengal, leading to depleted fish stocks and conflicts with the in-shore artisanal sector; and so on.

Domestically, countries can regulate and enforce (to the extent they have the capacity to do this), but it is much more difficult to influence activities which take place in other countries; this gives rise for concern in the context of trade expansion. It prompts questions about the effects of trade liberalization on the environment and whether trade policies can be used to influence environmental standards. The pursuit of larger shares of international trade may push environmental goals further down the agenda (Cho, 1995). It also implies a role for global governance mechanisms.

The WTO is one such mechanism. However, it operates rules that reflect a very narrowly defined market framework. Measures relating to process and production methods (PPMs) in other countries, or to health and the environment outside a country's own territory and jurisdiction, are not presently permitted (LeQuesne, 1996). While the WTO admits "Trade and environment ... should be mutually supportive in order to promote sustainable development" (WTO, 1999), its main focus is to promote economic development through trade. Countries can set their own environmental PPM standards but they cannot be used to impose trade restrictions on imports from other countries. There is concern that countries with sufficient economic power could set product standards at home that exporting countries, particularly developing countries, may not be able to meet (Barham, 1997) – and that these will create a new genre of trade barriers. This is discussed further in Box 5.

Multilateral environmental agreements (MEAs) provide another mechanism, where trade sanctions can be used to promote responsible environmental actions and policies. Yet for MEAs to have teeth, they must be better integrated into the decision-making processes of the WTO; this is currently the subject of intense debate.

Box 5 Environmentally induced trade measures and environmental protectionism

There has been considerable debate over the past few years over whether the way in which a product is produced should enable trade barriers to be enforced if this does not conform to environmental standards applied in the importing country. Process and production methods (PPMs) – the way in which products are manufactured or processed, or natural resources harvested – can have significant environmental impact. Concerns that certain PPMs may cause environmental harm have led to actual or proposed use of trade measures. Well-known cases include the US v. Mexico tuna/ dolphin conflict and the shrimp/turtle case brought against the US by Malaysia, Thailand, India and Pakistan. Developing country exporters are likely to be affected where production and processing standards do not comply with industrialized-country standards, or meet international standards. Trade disputes over matters that were once considered as exclusively domestic reflect growing globalization and intertwining of economies through trade and investment, which means that domestic policies can have an impact far beyond the domestic border.

PPMs are of two main kinds: product-related measures, and processes and production methods. Product-related measures include restrictions or bans on, for example, the use of certain packaging, information requirements, deposit-refund, ecolabelling. The number of these measures is said to be growing fast, to undo the negative environmental effects arising from consumption of products. The environmental objectives underpinning these can only be enforced if foreign-made or harvested products are subject to similar controls. PPM measures are directed towards local environmental effects of production: for example, drift nets can also kill other species; and crops treated with particular chemicals can result in pollution of water courses. Although trade restrictions can only be imposed on the traded products, a number of cases have been brought before GATT and the WTO to justify this type of trade measure. Agricultural, forestry and fisheries products are particularly vulnerable to PPMs because of their critical relationship to the environment (in production or harvest), and because of consumer and importer concern over the quality of food products.

Various proposals have been put forward to overcome these problems, including compensatory payments, inducements to burden sharing, provisions for monitoring, compliance and follow-up action, use of MEAs and ecolabelling. These issues are under much discussion within and outside the WTO. While many developing countries would support moves towards ecolabelling, they would resist any legitimization of non-product related PPMs, particularly as they see that values and policies differ from one country to another, making it difficult to internationalize PPMs requiring all countries to follow the same production methods. This would be disadvantageous to developing-country exporters, as they would incur additional costs to comply with higher standards, whilst also bearing the cost of adapting late because they do not participate in the design of these measures. Being less well-informed they are less able to anticipate these measures (Verbruggen, 1994). However, the trade-environment debate is not going to go away. The problem is that there is no global institution with the mandate to resolve "the conflicts inherent in the pursuit of trade liberalisation and environmental protection" (Brack, 1997).

Sources: Brack (1997); Verbruggen (1994); *Economist*, 8.5.99; Youngman (1996); Shahin (1996)

To protect the environment adequately (and hence the ability to sustain living standards) whilst expanding trade it is important that:

- all countries have the capacity to analyse, regulate and enforce environmental standards;
- all countries 'own' (participate in, contribute and sign up to) the global governance mechanisms that preside over trade and environment issues.

This emphasis on global mechanisms must be accompanied by local capacity and awareness. Many environmental impacts will be felt at a local level, and may never reach the attention of the international lawyers. Poor people may suffer income erosion because of declining soil fertility, falling fish stocks, or health problems because of unregulated use of agricultural chemicals. Making provision to minimize or reverse these effects implies a need for awareness-raising and local-level mechanisms that permit such issues to be identified and addressed.

3

WAYS TO INCREASE ACP PARTICIPATION AND BENEFITS FROM TRADE

In this section the following are considered:

- how the benefits from trade are shared between the North and the South;
- how ACP countries can intervene to realize greater benefits from trade, and
- the effect of EU trade and development policies

HOW ARE THE BENEFITS FROM TRADE SHARED BETWEEN THE NORTH AND THE SOUTH?

Trade theory indicates that trade between nations is usually beneficial and that free trade is the most beneficial system. Given the huge differences in the economies trading it must considered whether liberalized trade will enable all countries to benefit equally. The benefits to world trade resulting from the Uruguay Round are said to be enormous (estimates of world trading income by the year 2002 are more that $ 200 billion), but the main beneficiaries are likely to be the North – the EU and the US (LeQuesne 1996; ODI, 1995b).

Sub-Saharan Africa may actually lose income – an estimated $ 2.6 billion – due, in part, to the likely loss of preferences from Europe after the end of Lomé IV (LeQuesne, op.cit.). However, according to the World Trade Organisation, two-thirds of world trade is now conducted without preferences because so many duties are at zero (Eglin, 1998). The World Bank considers the Uruguay Round a 'mixed blessing' for developing countries, because in the short term the elimination of industrial country export subsidies will worsen the terms of trade for food-importing

developing countries (World Bank, 1996). In addition, it is unlikely that the social and environmental costs of freer trade have been included in the above estimates.

For individual countries, the benefits from trade will be greater if they are able to: increase value added; generate multipliers in other sectors; and minimize negative consequences (for instance on environmental or social standards). Success in this will depend partly on broader capacity issues (such as rural infrastructure and education that facilitates the growth of rural economies, investment, and governance mechanisms to foster participation and effective environmental monitoring).

However, increasing developing-country shares of value added may require some more fundamental reversals and take much longer. Whilst value *is* added in the exporting country for some new exports (for instance, high-value horticulture), value added in many traditional commodities is still skewed against the country of origin.

> Sub-Saharan Africans produce raw material for export whereas processing is undertaken elsewhere ...
>
> According to a UN study, producing countries retain an average 15 % share of the final retail value of products made from the main primary agricultural commodities. ...The producing country share for cocoa, tobacco and cotton – products that require extensive working up or processing – is as low as 6-8 %. Tea, coffee and bananas need less working up, so the share may be 15 %. Tea is an exception because processing must be done after picking to avoid spoilage, and only blending and packaging are done elsewhere. (Brown and Tiffen (1992) p.95 and p.97).

Fair-trade initiatives, which aim to return higher shares of the retail price to the producing country, are discussed in *Ethnical trade in agricultural commodities*, p.52.

Foreign direct investment (FDI) in developing countries is increasing dramatically. There has been a 100% increase in global FDI inflows between 1991 and 1995, although Nigeria was the only ACP country to receive a sizeable share (0.4% of world FDI inflows in 1995) (UNCTAD, 1996).

Yet whilst this may facilitate or increase developing-country participation in trade expansion, and almost certainly transfer additional labour-intensive value-adding functions to the country of origin, it is unlikely to reverse the dominance of importing countries in value shares. The earlier example of the Mauritius garment industry is a case in point. To increase income generated by the sector, this advanced industry now recognizes that it can only achieve this by developing better skills in design, and targeting high-value markets. Retail margins are an important component of retail prices in developed-country markets – and producing countries are unlikely to make significant inroads here.

The nature of informal regional trade means that the local economy linkages may be much stronger, and will almost certainly be associated with significantly higher developing-country value shares. "New regional exportables – cowpeas, onions, poultry, fruits and vegetables – may also have great potential for stimulating linkages." (Delgado *et al.* (1994) p.25, drawing on work conducted in five SSA countries).

INCREASING PARTICIPATION IN TRADE: WHERE ACP COUNTRIES CAN INTERVENE

The discussion so far has indicated that there are important qualitative differences in the nature of trade in certain commodities, in the way trade is conducted, and how its benefits are spread (or limited). There is considerable experience of initiatives that boost production and diversification, particularly in SSA as well as in the Caribbean and Pacific states. Some of these are internally driven; others have been encouraged and facilitated by outside private investors where they have seen a market opportunity; and, in other areas, NGOs are acting as 'honest brokers'. Donors, particularly the EU, are keen to assist in the provision of infrastructure, both physical and institutional, that will facilitate market development. Here, some of the opportunities to influence participation in trade are reviewed – keeping in mind a strong poverty focus.

Existing informal trade

Many international borders and national policies interfere with natural hinterlands and long-established trading areas. Informal trade between countries appears to be a buoyant and growing sector – and in some countries may be more important than formal trade. Moreover, the nature

of such trade (that is, rooted in the local economy and traditional products, avoiding officialdom, conducted locally, with low margins where there is intense competition) means that it is accessible to the less well-off (and may be less attractive to the better-off). (*See Gender*, p.33, on women's participation in informal trade).

A study of informal trade between Malawi and Mozambique, Zambia and Tanzania (Minde and Nakhumwa, 1997) found this trade to be important in transferring food from surplus to deficit areas (Mozambique to Malawi) while non-agricultural products were also transferred from surplus to deficit areas (Malawi to Mozambique)*. Substantial amounts of income and employment are believed to be generated from this activity, which also increases food availability to participants and provides market opportunities for local producers. The study found that the trade in agricultural commodities provided three types of opportunities: during the period immediately after harvest it provided markets for surplus farm produce and income to local producers; during the long period between harvest and planting the trade provided producers with opportunities to invest their capital in other non-agricultural activities; and the imports of grains, pulses and vegetables provided food to low-income households in the major towns. This trade is also important for the supply of agricultural inputs such as fertilizer. Large quantities of fertilizer, estimated at about 17 000 tonnes, or 17% of Malawi's consumption, were imported from Zambia in 1996. Fertilizer was also traded with Mozambique (ibid.).

However, informal traders face problems because their activities are illegal and governments lose revenue from uncollected import duties. There is a need for more information to determine how best to increase and spread the benefits generated by this dynamic sector.

Other opportunities for increasing regional trade

Drives towards export diversification have largely been focused on overseas markets. There is very little official trade in agricultural inputs and commodities between African countries. Most SSA countries conduct less than 10 % of their external trade within the region, although it has been estimated that up to $ 5 billion of Africa's current imports could be

* Other authors also reflect increased interest in and recognition of this trade. "No study of private trade in Africa can ignore the existence of enormous unofficial flows of goods, including high value food commodities between African countries". (Jaffee and Morton (1994) p.75).

supplied by other African countries already exporting similar products outside the region (Jaffee, 1993). Uganda is a notable exception. Recent growth in non-traditional exports has been dominated by regional trade in maize, beans, fish, and hides and skins. Between 1988 and 1993, this trade increased in value from US$ 1.4 million to US$ 75 million.

Arguments against regional trade have often followed the line that neighbouring countries produce similar crops, at the same time of year and at similar prices, which preclude opportunities for trade. However, the incidence of unofficial trade indicates that regional markets may have substantial potential for absorbing a wide range of agricultural and non-agricultural commodities, including those traditionally exported outside the region. Lower transport and transaction costs may partly explain the importance of these local markets.

Although economic production may be broadly similar, differences in techniques employed may result in different opportunities. For example, the neighbouring countries Zambia and Malawi both produce maize, but many Malawian farmers also have considerable experience as tenants growing tobacco – a crop which requires intensive cultivation – and are now finding opportunities to grow paprika, a crop with similar cultural techniques. Zambian farmers are accustomed to growing large areas of maize and find diversification more difficult (Coulter, 1998).

Countries such as Malawi could build on their strategic location at the centre of a rich agricultural hinterland, including northern Mozambique, eastern Zambia and southern Tanzania. Much of this area is served by a largely rehabilitated railway. Infrastructural improvements and free-trade agreements could facilitate significant increases in the volumes traded in the region (ibid.).

The rate of growth of official inter-African trade has been very low despite the emergence of numerous regional integration zones. With their trade mainly directed to industrialized countries, regional trading blocs have been largely irrelevant. Some of the most serious obstacles to diversified intra-regional trade in southern Africa between SADC members are considered to have been the intended and unintended effects of macroeconomic and agricultural sector policies (Jaffee, 1992). In particular, the general shortage of foreign currency has limited trade. Uncertainty about the availability of foreign exchange has led both public

and private sector firms to prefer to import from foreign suppliers, from South Africa or outside the region, which can give extended payment or credit terms. Foreign exchange shortages have encouraged trade promotion and export activities to concentrate on hard currency countries (ibid.).

In some countries, although regional trade is important, it has also proved extremely destablilizing. Whilst some instability is an unavoidable characteristic of agricultural markets, certain policies appear to have led to its increase. Uganda, for instance, is situated amidst several strife-torn countries for which food aid (and seed) purchases are commonly made by donors. However, it appears that there is an increasing tendency for the aid agencies to work as a group – and to make a small number of large purchases. This is difficult for traders and producers to plan for; it leads to a sudden but unsustained price rise on the local market which, if factored into next season's planting decisions, invariably leads to over-supply and very low prices. Similarly, when Tanzania anticipates a shortfall in maize production, a ban on exports to Kenya is imposed. This has the effect of raising prices further in Kenya – and increasing the incentive to export.

Regional trade – be it official or unrecorded – is significant, but still poorly understood. With more information, ways to facilitate it can be identified. Equally important is the need to limit its most extreme negative impacts, some of which seem to be compounded by the well-intentioned actions of aid agencies or governments. The formation or enlargement of regional trade organizations may disrupt traditional trade channels. For example, Egypt's entry into the Common Market for Eastern and Southern Africa (COMESA) will allow it access to low-tariff Kenyan tea, but its traditional supplier, Sri Lanka, is forecast to lose much of its Egyptian market (*Daily Times*, 21.4.1999).

Strengthening institutions

Trading activities have generally enjoyed a boost during structural adjustment. The intention behind many of the measures taken, reducing the direct role of the state in marketing, was to give a free (or freer) reign to private enterprise. However, the little that is known about the extent to which the private sector has been able to take over former state-run activities is disappointing (Olukoshi, 1996). Inadequate provision of public goods (research, extension, port facilities) adds to production and trading

risks, delays the involvement of small farmers and African exporters, and biases the direction of crop and trade diversification away from more technically demanding crops or those with long gestation periods (Jaffee, 1992).

The expected surge in private agribusiness activity has yet to materialize in Africa, and there is growing realization that some intervention by governments and donors is necessary to encourage private sector involvement. In their study of Africa's agro-entrepreneurs, Jaffee and Morton (1995) identified a number of factors that affect agribusiness development. One factor was the array of market and extra-market institutions employed by processors and traders to procure inputs, to sell their goods and to overcome policy uncertainty, infrastructural deficiencies and other operating constraints. Extended families, formal and informal associations, seasonal and longer-term contracts, and various forms of conglomeration and integration were among the most common frameworks used by African agribusinesses to organize their commercial relations, both backwards and forwards.

For small-scale producers, marketing options may be more limited and they may have trouble in selling their produce and getting a fair price. In a number of instances, NGOs have become involved as 'honest brokers' to help producers obtain a fairer price, to provide extension advice, market information and training; and to investigate ways of processing products and adding value. However, while this is well intentioned, many such interventions prove to be unsustainable and offer little prospect for scaling-up to increase impact.

There is often an important role for specialist intermediaries, which link producers with international markets, assisting producers, processors and exporters through providing services from production to marketing, particularly for products such as organic foods and medicinal plants.

There remains an important role for government services. Key legal and regulatory frameworks are required to protect traders, to provide guarantees to importers and to maintain quality standards where these might otherwise be compromised by unbridled private activity. Business development services, financial services (public provisions or public roles in creating the conditions for private provision) plus systems to reduce red

tape and assist with foreign exchange convertibility and retention are also necessary.

In their examination of successful commodity-exporting countries, Yabuki and Akiyama (1996) identify certain government policies that encourage viable commodity sectors. These include eliminating price controls and state monopolies; promoting research and extension; developing sound transport and communication infrastructures; enticing foreign capital and technology transfers; and establishing a legal system that encourages the use of innovative financial instruments, especially risk management and a sound warehouse receipt system.

There is also a need to develop and strengthen institutions that, by sharing some of the risk, enable poor people to participate in trade. Programmes such as information provision, group lending activities, and facilitation of links to banks, input suppliers and markets can be a way to assist smallholders, possibly organized in conjunction with outgrower schemes. Box 6 describes recent experience with this in Zimbabwe.

Box 6 Cracking the nut of working capital

Hortico is a commercial horticultural company, based outside Harare, involved in growing high-value crops for export. Most of the production comes from the company's outgrowers who are commercial farmers in the area. The company has also assisted some smallholders in overhead irrigation and trained them in crop production, working closely with government extension officers. Until recently, it also provided working capital, making deductions for loans from financial payments. The company is considering a new business venture to increase the number of its smallholder outgrowers from 200 to 3000. It anticipates providing fixed assets (transport and cold stores) as well as training and supervision, but cannot provide the working capital to an expanded number of smallholder growers given the high risk involved.

This represents a major difficulty as smallholders do not have the necessary security to obtain bank loans, and the Agricultural Finance Corporation, which used to be an easier source of finance for smallholders, will no longer make unsecured loans. 'Cracking the working-capital nut' is the major challenge facing the company in working with greater numbers of smallholders. As the individual smallholders do not have assets against which loans can be secured, one way forward may be to develop group lending among smallholders, with the group putting up a security fund of sufficient value to deter prospective defaulters.

Source: Stringfellow *et al.* (1997)

Further information on credit and institutions can be found in the companion publications to this study on Rural Finance (Goodland *et al.*, 1999) and Institutional Development (Griffiths *et al.,*1999).

Non-traditional high value exports

Diversification of exports has long been promoted as a necessary pathway to increase participation in trade and is considered to offer an important avenue for agricultural growth in Africa (Jaffee, 1992). There is a large potential for non-traditional exports, such as fruit and vegetables, which some sub-Saharan African countries have exploited to great advantage (for example, Zimbabwe and Kenya), whilst others have scarcely entered the trade at all. OECD countries' imports of such products have increased much faster than imports of traditional unprocessed products (WTO, 1996). Diversification of production into high-value, labour-intensive commodities, such as horticulture, can also increase employment.

However, there may be trade-offs between employment and sustainable development, return on investment, and market requirements for quality and quantity. Box 7 compares the performance of various high-value crops against these criteria.

Some countries have been able to draw together the necessary ingredients to develop and maintain a high-value agricultural export industry in response to demand in the developed economies for fresh fruit and vegetables all year-round. Box 8 describes the importance of high-value horticultural production and trade in Zimbabwe.

Box 7 Employment and income potential of high-value export crops from Uganda

- Roses and other flowers generate high levels of foreign exchange, but relatively small numbers of jobs. Jobs are secure and relatively highly paid. Growth potential is high.
- Fresh fruit and vegetables can generate even higher levels of foreign exchange, but have only limited investor interest as margins are lower than for roses. Could generate many relatively well-paid jobs and has outgrower potential, but investment is needed.
- Crops such as vanilla, chilli, ginger and other spices can provide a small income to many growers in rural areas, but growth is limited by market size.
- Dried tropical fruit and vegetables can provide a small income to a limited number of growers and the market is small. Growth requires investment in processing facilities which meet EU safety standards.

Source: Agribusiness Development Centre (1998)

Box 8 High-value horticulture in Zimbabwe

Economic reform has reduced currency overvaluation, while decreasing price and other support for staple-food grain production. This has contributed to diversification into higher-value cash crops. Large investments have been made in horticulture infrastructure. Exports have increased rapidly and are making a significant contribution to agricultural output and exports. During the first eight months of the 1997/98 season, cut flower exports amounted to US$ 50 million and fresh produce exports to US$ 23 million. Horticultural exports have grown by between 10 % and 60 % per year by value for the past 10 years and provisional forecasts are for average growth of 33% a year for the next five years.

Most of the fresh produce grown for export is produced on large-scale commercial farms, but 5 % of production comes from smallholder growers contracted by large companies to grow crops. A large number of people, particularly women, are employed by packhouses.

Zimbabwean producers supply pre-packed fruit and vegetables such as mangetout, green beans, gooseberries, chillies and baby corn to wholesale outlets in Europe, primarily the UK. One company has over 500 ha of asparagus beds and supplies prepacked, labelled punnets. Once the asparagus is cut, it is hydro-cooled and maintained at chilled temperatures until it reaches the shelf. Asparagus picked on Friday morning can be on the supermarket shelf in the UK on Sunday morning. Nowhere else in the world is able to do this and it gives Zimbabwean producers a considerable advantage. The climate is also beneficial – asparagus can be grown from August until May, when European production comes on stream. Mangetout and sugar snap peas are produced from April to November. Companies aim to grow export products for 12 months of the year so that they are in a stronger position to secure air-freight space.

At least one packhouse has applied for approved supplier status for the supermarket trade in the EU and already adheres to EU regulations, including health and safety, hygiene and staff welfare policies. Great attention is given to quality, as Zimbabwe tries to compete with other producers such as Guatemala and Kenya, which have suffered from quality problems. Considerable effort also goes into developing relations with its main markets and customers.

The government is said to be very supportive of the industry, assisting with, among others, trade promotion overseas. Exporters still face difficulties, however. The devaluation of the Zimbabwean dollar in 1997 led to a 30 % increase in air-freight charges and packaging, so reducing gains from increased local prices. It is hoped that air-freight rates will come down as air-freight capacity improves, though limited ground-handling facilities continue to affect the industry. Seventy five per cent of horticultural export tonnage is air-freighted, and being higher value, the air-freighted portion accounts for 90 % of the value of Zimbabwe's horticultural exports.

The industry is buoyant and optimistic, though substantial growth in production of flowers, such as roses, has led to falling prices in many countries. To increase market share, producers of fresh produce are diversifying into higher-value, high-care premium vegetables.

Source: Based on work by J. Coulter, A. Malins, J. Millns and A. Tallontire and information collected by the Natural Resources Institute Ethical Trade Programme (NRET)

Promoting investment

Foreign direct investment (FDI) in low-income countries has increased rapidly, although the Asian crisis has led to some slackening in flows since the second half of 1997. (Flows to low-income countries roughly halved between 1995 and 1997.) Between 1986 and 1995, FDI inflows to developing countries increased tenfold, from US$ 10 billion to US$ 100 billion. Amongst developing-country recipients, low-income countries account for roughly 45% of inflows. China and India are the main low-income recipients, while SSA accounts for a only 9% of FDI to low-income countries (1997). Nigeria is by far the largest African recipient (UNCTAD, 1996). South Africa and Malaysia are investing heavily in Africa. Key factors to encourage FDI include well-developed infrastructure, a large immediate market, relatively stable economic and political context, and existing business contracts (Gordon, 1999).

Africa lags behind the Asian countries in attracting FDI. Historically, African agriculture has received relatively little investment, and despite macroeconomic reforms and changes in investment codes, there has been relatively little new foreign investment in diversified agriculture and agribusiness in Africa (Jaffee and Morton, 1994). Investment that has occurred has usually involved firms with long-standing experience in the region that are seeking to diversify or re-direct existing operations. Jaffee and Morton found that, with high-value foods, much of the incremental involvement of foreign companies has been through management and marketing contracts, equipment supply and consultancy services, rather than direct investment.

Collier and Gunning (1997) argue that the little money that has been invested in Africa has been inward looking and confined to a small number of companies with information advantages. They quote a survey in which foreign investors in East African countries were asked if they had considered other locations. It appeared that they had only invested there because it was considered that the project could not be located elsewhere because of the presence of the natural resources required, or because the investment was intended to serve the local market. Collier and Gunning argue that such investment tends to be growth dependent rather than growth generating. Investment in Africa also appeared to be from firms with a long-established presence in the area – over 60% of OECD investment in Africa between 1989 and 1994 came from Britain and

France. Collier and Gunning conclude that Africa is not attracting investment from a global pool of investors, nor is it attracting investment that is globally, rather than domestically, oriented. Investors are deterred by lack of information.

A summary of some of the steps governments can take to improve their risk ratings and attract more trade and investment are given in Box 9.

Box 9 Policies for African integration into world trade and capital markets

Trade integration

1. Strengthen policy towards reducing transaction costs (telecommunications, infrastructure and contract enforcement)
2. Strengthen manufacturing by reducing trade barriers and embracing competition
3. Increase international credibility through trade agreements and participation in the WTO

Capital market integration and improving risk ratings

1. Grant independence to central banks (long-term, not short-term, effects on credibility)
2. Keep government spending to manageable levels – if necessary as imposed by independent central banks
3. Capital account convertibility (to encourage inflows)
4. Regional stability pacts to achieve common macro-economic targets
5. Establish public insurance agencies to cover political/policy risks faced by foreign investors impartially
6. For large investments, using multiple sources of credit ('credit syndication') such that a defaulting government risks penalties from wider and more numerous sources
7. Establish investment charters which meet internationally acceptable standards

Source: adapted from Collier and Gunning (1997)

Addressing constraints which are specific to agricultural exports

Currently, attention is focused on the likely erosion of trade preferences and the impact this will have on ACP trade. However, there are other factors that have an impact on agricultural trade even in a favourable policy environment. Jaffee (1993) outlines four areas in which intrinsic problems in food marketing commonly arise.

- *Food product technical characteristics*
  Food products and raw materials, being bulky and perishable, give rise to physical handling and transport problems. Perishability limits the marketing flexibility of producers and increases their market risk. Food commodities and raw materials exhibit considerable quality variability from unit to unit and tend to have multiple quality attributes. This limits the scope for informative grading and reduces the likelihood that market prices will signal complete information about the quality of such goods.

- *Food commodity production characteristics*
  Food products in developing countries tend to be produced over a large area by dispersed, small-scale producers. This can result in high costs for crop intelligence and transfer of information about market demand, and also contribute to high transport costs in collection of raw materials. The small output may not warrant investment in proper storage facilities or standardized containers. This may lead to additional handling activities or require additional quality inspection. Small, dispersed producers may only be able to sell to one or two buyers. There is frequently a mismatch between the operating scales conducive to efficiency at the farm level and in subsequent processing operations.

  Another set of food production characteristics concerns yield lag, yield uncertainty and seasonality of production. This creates a need for medium-term financing and presents a potential risk for the producer. Seasonality creates problems for cost-efficient utilization of transport and processing equipment.

- *Production support by marketing enterprises*
  Food marketing enterprises often have an important role in stimulating and directly supporting raw material production, by providing market and technical information, production finance and inputs. The incentive for a marketing enterprise to provide such services will depend on the possibility of obtaining a benefit, such as increased output, improved product quality, and output better timed for marketing or processing. The scope for receiving such benefits will depend on the nature of the product as well as on the prevailing market structure, and options for enforcing contracts with growers.

- *Processing and distribution functions*
  Several types of infrastructure, information and other resources needed for efficient food processing have characteristics which may inhibit private investment in specialized activities, contribute to non-competitive market structure and/or weaken the competitiveness of a commodity system.

  Other types of marketing infrastructure entail lumpy investments that can be a major barrier to entry. Investments in certain modern processing, storage, transport, and trading facilities may provide the investor with an operational capacity far in excess of current supplies. The large per unit operating costs in initial years, together with uncertainty about future raw material or commodity supplies, may inhibit the private sector from undertaking such investments. Without a well-functioning stock or financial market, there may be few means to pool the risk associated with such investments.

In considering these features which affect trade in agricultural goods, it is useful to distinguish between those which are common to agricultural production everywhere, and those which place developing-country producers at a particular disadvantage.

All producers face similar food product characteristics, though the options available for dealing with these may be more limited in developing countries (careful handling and transportation, storage and cold chains). Product variability may be larger in developing countries because of greater variability in production practices (amongst multiple dispersed producers), but lower labour costs may confer advantages in terms of sorting or grading.

Producers everywhere face seasonal production patterns, though these may be more sharply defined in some places. In less-developed, less-diversified economies (typical of less-developed countries), there will be fewer opportunities to spread costs by using specialist equipment and transport out of season. Dispersed production creates additional costs (in information, transport and handling). Low-income producers also have a greater need for production finance, and present high per unit costs of lending (because individual needs are small, and individuals are dispersed and find 'standard' bank approaches inaccessible). Loan repayment is often difficult to enforce, either because of physical distance between

banks and small growers, or because of the expectation of loan amnesties.

Dorward *et al.* (1998) point out that these issues may be more amenable to an 'institutional fix' than any technical intervention. Thus credit risks can be reduced by group lending schemes or linking input advances to output purchases. Governments can also help reduce the incidence and perception of credit risk by providing a legal framework conducive to contract enforcement. Transport costs can be lowered through brokerage, and collaboration between companies to minimize empty one-way journeys. Some of these solutions are obvious, but take time to emerge. In recently reformed economies, where the private sector is still weak, a better understanding is still needed of the critical inputs governments can provide to facilitate the establishment of sustainable commercial mechanisms to deal with these issues.

Ethical trade in agricultural commodities

Ethical trade is an umbrella term for a variety of approaches to trade where social and/or environmental factors are part of the trading relationship in addition to financial criteria. In relation to agriculture, forestry and fisheries, ethical trade includes fair trade, trade in organic agricultural products, trade in certified forest products, trade in aquatic resources from certified fisheries, and trade in environmentally certified cut-flowers.

There are various markets for ethically traded commodities. Until recently, both organic and fair-trade products were largely sold through specialist outlets. Now the same products are increasingly being sold through conventional outlets, and in many EU states fair-trade bananas, for instance, sit alongside the products of multinational banana companies, and organic fruit and vegetables are sold by supermarkets.

Market share for organic and fair-trade products is still relatively low, although rates of growth are often impressive. The global organic market is worth US$ 11 billion (1-2% of the total food market), with organic imports from developing countries worth US$ 500 million. The UK market is £ 260 million (Mintel, 1997), and one major supermarket chain now has 180 organic products. Imports account for around 60-70 % of the volume of organic produce sold in the UK (Mintel, 1997).

The world market for fair-trade products is estimated at US$ 400 million (0.01% of world trade). However, for items such as ground and roasted coffee and bananas, market share is as high as 5% in some northern European countries.

In the medium term the demand for organic produce is expected to rise (Mintel, op.cit) with some analysts predicting a 15% market share in Europe and the US by 2006. There has been less market research on fair trade, and future growth is likely to be influenced by factors within individual Western countries. For instance, in the Netherlands and Germany, where there is a strong fair-trade movement and more fragmented retail system, fair trade may continue its rapid growth (10-25% per year). In the UK, where seven supermarkets account for 85% of spending on food and only fair-trade coffee has established itself in the conventional market place, some people inside the fair-trade movement predict that such products will remain a niche market.

A change in agricultural trade is likely to result from the growth in *ethical* sourcing. Already major food companies and retailers are developing standards of environmental and social responsibility, which will be applied to all their producers. The Body Shop in the UK was amongst the first to introduce such standards, and Albert Heim, J. Sainsbury, Tesco and Unilever are amongst the companies setting minimum standards for all their products. In some ways, ethical sourcing is a response to the consumer concerns that lie behind the growth in fair-trade and organic products. It mirrors changes in business practice already seen in quality assurance, food safety and integrated crop management, whereby buyers increasingly impose standards on producers as a condition of trade. This necessitates product traceability, so that the production and handling chain can be audited. However, this may mean that ethical sourcing actually excludes poorer producers that have hitherto been able to export, and, in the organic and fair-trade movements, the issue of delivering social and environmental benefits at the same time has still to be resolved.

EU POLICIES FOR DEVELOPMENT AND TRADE

Areas of coherence and conflict between trade and development policies

The 1992 Maastricht Treaty on European Union committed the 12 member states to coherence between EU development policies and other policies (although it does contain a let-out clause). Committing themselves to such an ideal is an unprecedented step because few, if any, member states commit themselves to consistency between national policies. "... policy is always to some extent ad hoc, negotiated out of a clash of contending forces". (CIIR (1996) p. 1).

In practice, does the EU ensure this coherence and lack of conflict? Evidence suggests that it fails to live up to its vision, but that there are many reasons for this. While trade's vital role in development is now recognized,

> ... trade policy has a very different ranking from that of development in the thinking of member state governments and involves some of Europe's most powerful interest groups: the military, transnationals, chambers of commerce, captains of industry and banks. When it comes to 'consolidating democracy' and 'respecting human rights', trade will win every time. The economic cost of principles is simply too high. (CIIR, op.cit., p.21).

There is strong support for the view that the Common Agricultural Policy (CAP) undermines EU development policy objectives, and that over-production of agricultural commodities in the EU, combined with export subsidies, threatens prospects for food security in developing countries (Fowler (1996) and *see* Box 10). EU agricultural trade at the present time detracts from the EU policy objectives of integrating countries into the world economy and reducing poverty.

The EU is the world's largest trading bloc and is primarily concerned with ensuring it has an adequate supply of raw materials, most of which now have to come from outside the EU, to supply its industries. High protection of its own agricultural sector has been an important part of its internal policies that have sometimes adversely impacted on outside countries. Developing countries are viewed as an important source of raw materials

Box 10 Development policy in practice

"In the early 1990s, the European Union regularly produced some 10 % more beef than it could eat, and stocks stayed well above 1 million tonnes, incurring huge costs. To dispose of the surplus, large quantities of beef were dumped, using a subsidy of 2 ECUs per kilo.
West Africa was a small market for European beef but the impact of dumping was extraordinarily damaging. Livestock production is the mainstay of the rural economy in parts of Burkina Faso, Niger and Mali. It provides a living for some 4 million people, who sell cattle from the poor fringes of the Sahara to the richer coastal cities of Abidjan, Cotonou and Lomé. The EU beef was regularly undercutting the Sahel herders by more than 50 %. It wiped out the market for their cattle and destroyed their livelihoods.
At the same time as the European Union was spending millions of ECUs to subsidise beef exports, it was spending hundreds of millions of ECUs to promote West Africa's livestock industry. The development cooperation budget paid for measures ranging from improved cattle breeds through to refrigerated abattoirs. Development agencies in a number of member states drew the matter to the Commission's attention and, in June 1993, the subsidy for export of beef to West Africa was reduced by 15 %. This was not a spectacular victory for common sense, since it was not enough to bring the West African producers strongly back into the market. But it was a significant gain and, perhaps more important, it brought the issues of coherence to the fore for the first time."
Source: CIIR (1996) p.6.
Although not mentioned by CIIR, overvaluation of the CFA franc would have exacerbated the impact of EU subsidized beef exports in the early 90s. It was devalued by 50% in January 1994.

and as markets for European products. While their development into large markets is important, safeguarding employment and food security within the community is of greater concern to the EU.

EU development policy

The EU's development policy is incorporated in the Maastricht Treaty and based on an extensive aid programme consisting of expenditures under the Lomé Convention, its European Development Fund and other aid budgets.

> ... in the area of development co-operation, the Member States have spelt out common objectives under article 130u of the Maastricht Treaty, namely to foster:
>
> - the sustainable economic and social development of developing countries, and more particularly the most disadvantaged of them,

- the smooth and gradual integration of developing countries into the world economy,
- the campaign against poverty in developing countries,
- the observance of human rights and fundamental freedoms, and developing and consolidating democracy and the rule of law.

> Another article of the Treaty with a significant impact on EU development co-operation is 130v which states that the EU should take account of the above objectives in any of its policies likely to affect developing countries. This legally-binding requirement for policy coherence implies that development objectives should be taken into account in every common policy and may well require the EU to amend all its existing policies (including the Common Agricultural Policy) that have an impact on developing countries. (ODI (1995a) pp.1,2)

The Maastricht Treaty acknowledges the importance of trade as a component of development, while recognizing a need for both aid and trade. It sees the need for aid to improve competitiveness, providing additional capital for investment where significant private investment is lacking, particularly in Africa, and modernization of processing facilities. It now also considers that preferential tariffs are inadequate to ensure commercial growth, and that support for competitiveness is vital.

The EU considers that its Lomé Convention, first signed in 1975, covers nearly all factors that influence the sustainable development of the ACP countries (Gonzales, 1996). The original concept was reciprocity and partnership: a guaranteed supply of raw materials and commodities for the European Community and a guaranteed, known, export quota of these commodities for ACP producers (CIIR, 1996). The Convention currently covers (Gonzales, op.cit; EC, 1996) the following.

- *Trade rules*

  Non-reciprocity in trade that involves duty-free and quota-free access for about 94% of ACP products (100% for industrial and fish products and nearly 80% for agricultural products, with the exception of agricultural products covered by the CAP for which preferential treatment is granted).

- *Trade protection*
  Protocol arrangements to ensure guaranteed access, and remunerative prices, for five agricultural products: sugar; bananas; rum; beef; and veal. The sugar protocol guarantees access for up to 1.3 million tonnes of cane sugar per year.

- *Trade promotion*
  Tariff reductions were considered insufficient for promoting trade. Assistance for marketing is given in view of the new competition expected from the enlargement of the EU. A special allocation is made for this purpose.

- *Rules of origin*
  Criteria for substantial transformation and the provision for cumulative treatment of value-added in one ACP/EU tariff zone facilitate attainment of origin status through the use of materials and other inputs from the ACP and EU.

- *System for stabilizing export earnings – Stabex and Sysmin*
  A system of compensatory finance for almost all primary and semi-processed products (excluding meat and sugar which are supported under separate protocols, and tobacco), including forestry, certain fisheries products and minerals, compensates for falls in commodity export earnings.

- *Industrial co-operation*
  A jointly-managed Centre for the Development of Industry assists in industrial promotion and provides information to small- and medium-size industries in the ACP in search of technology and markets. The European Investment Bank was also assigned a role in financing industrial development.

- *Financial assistance*
  A special European Development Fund allocates finance for national and regional projects, subject to programming cycles and reflecting priorities. EU member states make *ad hoc* contributions to the five-year programmes.

Since 1975, a number of changes have been made during the Convention's five-yearly reviews. Trade provisions now include new or

better access for some other products such as rice, strawberries and tomatoes. Tropical fruits and vegetables also have improved access provisions. Greater diversification of financial instruments has been introduced to respond to the variety of ACP needs (Gonzales, op.cit.). Cultural, social and environmental co-operation, as well as regional integration, are now included (CIIR, op.cit.).

Some ACP countries, such as Jamaica, Mauritius, Botswana, Côte d'Ivoire and Zimbabwe, have benefited from high prices and guaranteed access for specific quantities within the five protocols established under the Lomé Convention. However, in other cases these may have contributed to inefficient, high-cost production, discouraged diversification to other products and not been sufficient to enhance growth of these sectors. Countries which have been able to benefit most from the protocols have been the middle-income, rather than the poorest, ACP states (Stevens, 1998). In 1995, Fiji received a net transfer of $ 110 million, approximately 5% of GDP, from the EU through the sugar protocol (Grynberg, 1997).

The Stabex scheme was established, under Lomé I, to stabilize export earnings of 12, mainly agricultural products, because these suffered debilitating price fluctuations (CIIR, 1996). Under subsequent Conventions, the product list was extended and 50 products and product groups are now included under Lomé IV. A number of criticisms have been levelled against Stabex and its lack of success in meeting its objectives: its partial nature; shortage of resources; slow disbursement; weak performance; and the few incentives provided for horizontal or vertical diversification. It is also considered that a few countries have benefited disproportionately from transfers, with a few products claiming most of the available funds, such as cocoa and coffee under Lomé I-III and bananas during the first five years of Lomé IV. However, any evaluation should consider that it is a partial scheme with the EU as the only donor and it can only solve some of the problems faced by some developing countries. It is considered that, despite a number of shortcomings, Stabex has proven to be of value to the beneficiary countries as a whole and farmers, as cash-crop producers, in particular. In the absence of a comprehensive international commodity policy, Stabex offers the ACP countries a partial solution for unstable foreign exchange earnings. Mechanisms need to be found that guarantee the system better meets its objectives (Koehler, 1997).

In the 1990s, the Lomé Convention was under pressure for several reasons. Internally, member states objected to increasing funding to the European Development Fund (CIIR, op.cit.). There was increasing pressure, via member states, to support other regions with close ties to the EU – the Mahgreb, Egypt, Syria, Lebanon, Jordan and Eastern Europe. The CIIR suggests that, ‘‘This move away from the Lomé countries amounts ... to a redefinition of the strategic objectives of the European Union after the end of the Cold War’’. (p.14).

Externally, the Convention is under pressure from the World Trade Organisation which considers that its non-reciprocal measures discriminate against non-ACP states. As part of the new world trade rules, the EU will have to revoke the Lomé system of preferences and protocols at the end of the current Convention. However, some African states are reluctant to manage without these preferences, believing that they guarantee market access and integration into the international trading system (Evers and Kuster, 1997). The authors quote the views of Tanzanian Minister Kigoda, SADC representative to the WTO ministerial meeting in Singapore in 1996:

> We must recognise the role played by preferential trade arrangements in creating a secure environment conducive to trade expansion in favour of the beneficiaries. Therefore, such arrangements particularly those that affect a large number of developing countries cannot simply be done away with, regardless of the consequences for these countries. We feel it imperative that the various preferential arrangements which currently exist be maintained into the next century in order to guarantee developing countries the security of market access and integration into the international trading system. In this context, we in the SADC region recognise the critical role played by the Lomé Convention in catering for our trade and development needs as well as for the needs of many other developing countries. It is our fervent wish that come year 2000, Lomé trade preferences will remain.

The WTO believe that increased openness to trade will offer benefits to all members and increase global welfare and that trading rules should not be manipulated to serve development needs. Their view is that for many of the developing countries whose recent export performance has been poor, the primary cause is an inadequate supply response rather than a lack of export opportunities (WTO, 1996).

Implications of CAP reform

The Common Agricultural Policy (CAP) is an umbrella for a range of policy regimes for different commodities within the EU. Many of these commodities are subject to price support payments, high import tariffs and export subsidies, which take up to 47 % of the EU's budget (CIIR, 1996). Although the CAP has had a detrimental impact on many developing economies, it has rarely, until relatively recently, been discussed in the context of policy dialogue with the South (Stevens (1998); Fowler (1996); CIIR, op.cit). Its reform has been under discussion for many years – primarily to reduce costs and to conform to WTO policy on trade liberalization, rather than to cohere with EU development policy.

Under commitments made under the Uruguay Round, the EU has agreed to cut the use of export subsidies. This means that surplus, high cost, agricultural production may no longer be dumped on international markets. It will also no longer be able to provide privileged access to commodities, under its commodity protocols, to ACP states. The impact of the current, pre-reform situation is given in Table 5, for five important commodity groups.

Table 5 Impact of various CAP regimes on ACP countries

Commodity	Current CAP and trade regime	Impact on ACP countries
Wheat and wheat flour	High import tariffs; export subsidies.	Mainly importers, including some of the poorest states.
Beef	High import tariffs; export subsidies (subject to administrative arrangements which have caused difficulties).	Some states have highly preferential access under Beef Protocol, e.g. Botswana and Zimbabwe.
Sugar	High import tariffs.	Substantial importers and exporters. Some states have special preferences under Sugar Protocol, e.g. Fiji, Zimbabwe, Malawi, Tanzania, Guyana. Richer states benefit most.
Dairy products	High import tariffs; export subsidies.	Primarily importers. In five poor SSA countries imports exceed 10% of total agricultural imports.
Horticulture, fruit, floriculture	Import regime more open than for other products. Combines entry prices with tariffs.	Primarily affected as exporters – South Africa, Kenya, the Gambia, Zimbabwe. Middle income countries export most.

Source: Adapted from Stevens (1998)

Two changes currently being proposed by the Commission are very likely to affect developing countries adversely. These are cuts in the EU price for beef, which will reduce the export revenue of beneficiaries of the Lomé Beef Protocol, and a reduction in subsidized cereal exports, which will affect poor food-importing countries (Stevens, op.cit).

Although there is considerable pressure for CAP reform from within the community, (because of the current budgetary implications, and the enlarged effect from more countries joining the EU), reform proposals being put forward at the present time are not those which are most likely to benefit developing countries. However, in the longer term, EU member country concern over budgets may lead to CAP reforms which also benefit ACP countries.

Future of EU/ACP trade arrangements

Considerable disagreement has been voiced about the implementation of the trade development path being promoted by the WTO. Its proposed route – increased integration in the global economy accompanied by sound domestic policies through development of regional trading blocs – has not gone down well with the ACP states. Other than opposition to the WTO position, however, developing countries have not proposed an alternative development path.

The EU stresses that the negotiations for a new Lomé Convention are much more open than in the past, and that there is greater involvement of the ACP states in the negotiating process. There is also a suggestion that the EU/ACP bloc has underestimated its power of negotiation with the WTO and that it should take more of a stand to protect the poorest states in the transition to more liberalized trade (Lowe, 1998). The EU's main objective is to move from the existing situation, where non-reciprocal agreements are insufficient to promote growth, and to develop a framework which allows for progressive integration of the ACP countries into the world economy. It believes that access is not enough; there is also a need for support, from development aid, to the process of structural reform, but that, inevitably, the EU must abide with WTO regulations not to discriminate between supplying countries.

There is considerable support, however, for the view that free trade is not always beneficial and that poverty eradication cannot be left to market

forces (the free market should not be equated with freedom). This is particularly the case for the poorest and least developed ACP countries. New frameworks need to consider not only trade, but also debt management, finance and investment and technology, the environment, gender equity and a clear commitment to human rights and participation (Kinnock, 1998).

4

CONCLUSIONS AND RECOMMENDATIONS

CONCLUSIONS

The past few years have seen accelerated moves towards global economic liberalization. Liberalized trade is viewed as a route to enhanced economic prosperity, but not all countries, particularly some of the poorest in Africa, the Caribbean and the Pacific, seem likely to benefit from these moves. For many ACP countries, agricultural, forestry and fisheries products still form the bulk of their production, employment and exports. Declining prices for primary product exports compared with manufactured goods mean that few countries have been able to achieve sustained economic growth through their agricultural sector alone. Over the past two decades, agricultural products have experienced a slow but steady erosion of their share of world trade.

Analysis of trade and development patterns underlines the important role of agriculture in the economies of ACP countries. In low-income countries, export markets are an essential source of future growth, particularly for higher-value products. The extent to which agricultural trade can improve the livelihoods of the poor depends on how it contributes to overall economic growth, and the extent to which the poor are able to participate in the benefits of that growth.

There is considerable experience of initiatives that boost production and diversification, particularly in the SSA as well as in the Caribbean and Pacific states. Some of these are internally driven; others have been encouraged and facilitated by outside private investors, as well as by NGOs. Donors are keen to assist in the provision of infrastructure, both physical and institutional, that will facilitate market development. Some of

the opportunities to influence participation in trade, keeping in mind a strong poverty focus, include:

- supporting existing informal trade;
- exploiting other opportunities to increase regional trade;
- strengthening institutions;
- developing non-traditional high-value exports;
- promoting investment;
- addressing issues specific to agricultural exports; and
- developing ethical trade in agricultural commodities.

The trade and development policies of the EU, one of the world's largest trading blocs, as well being one of the largest aid donors, have been examined for areas of coherence and conflict. The basis of the EU's development policy is the gradual and harmonious integration of developing countries into the world trading system through the Lomé system of preferences and protocols. Under the new world trade rules, the EU is under pressure to revoke these Lomé provisions as it is considered that the Convention's non-reciprocal measures do not constitute free trade. Many ACP states are reluctant to manage without these preferences, believing that they guarantee market access and integration into the international trading system.

The new world trade rules also put pressure on the EU to reform its own agricultural policies, which protect its producers, often at the expense of consumers and third country producers. So trade liberalization is a two-edged sword for developing countries. Whilst they would lose preferences and market access agreements, they would benefit from substantial CAP reform.

RECOMMENDATIONS: ENABLING THE POOR TO BENEFIT FROM AGRICULTURAL TRADE

Three groups of recommendations, working at different levels, can be identified to ensure that developing countries benefit from trade liberalization, and that within developing countries the benefits have an impact on the livelihoods of the poor:

- **international actions** to help developing countries get the best deal from trade liberalization (and particularly from the forthcoming Agriculture Round of the WTO);
- **targeting the export sector** (e.g. with selective infrastructure) in developing countries, without overlooking the importance of the food sector in its own right, and as a prerequisite for the realization of benefits from agricultural trading opportunities; and
- **focused interventions to ensure that the poor benefit** from improved opportunities for trade.

In addition, it is worth stressing that there is still a need to strengthen the enabling infrastructure and institutions in developing countries, in order to provide a context conducive to economic growth. This is not specific to trade development, but merits mention because these policies, institutions, infrastructure and education enable developing countries to exploit opportunities provided by international trade liberalization. There is extensive literature on this enabling environment and more specific interventions (such as business development services), so it is not further elaborated here.

International actions

Although there is expected to be a net gain to developing countries from agricultural trade liberalization, there will be winners and losers, both within countries and between countries. It is important, therefore, to anticipate those effects, and for developing countries to seek to negotiate the best possible deal at the forthcoming Agriculture Round of the WTO. There are four issues around which they will wish to negotiate:

- market access;
- export subsidies;
- domestic support; and
- mechanisms to deal with the losers.

Market access is a key issue for developing countries. The forthcoming round may, in principle, result in additional access, but care must be taken to ensure that this is enforced, and not won at the expense of gains made in other areas. Particular points of concern are:

- enforcing existing market access commitments;

- expanding market access commitments;
- identifying key products for which developing countries may wish to make a special case;
- ensuring that the move from existing specific (country and product) preferences to a generalized WTO system does not result in loss of market access for developing countries (notwithstanding the interim nature of any preferences, in the context of the long-run trend towards increasing liberalization);
- identifying those existing measures which are not working as intended, which would benefit from modification to the rules; and
- agreements such as the sanitary and phyto-sanitary (SPS) agreement, and other measures likely to have an increasingly important role in market access, as other barriers to trade are removed.

Export subsidies lower world prices, and where they are used to dump produce on particular markets, the effect is more serious locally than globally. For developing countries the concerns are:

- that existing commitments to reduce subsidies are enforced;
- that new commitments are made; that subsidy systems should in any case be modified to avoid particularly deleterious effects on selected countries; and
- that the Agriculture Agreement permits appropriate policy responses to minimize the negative impact of export subsidies.

In arguing for special treatment (or even fair treatment), developing countries need to prepare their ground. In particular, they need to be well-informed about existing and potential impacts of trade liberalization. Key areas include: food security; making sure that the Uruguay Round framework provides for policies to promote rural development; that developing countries exploit permitted mechanisms as much as possible; ensuring that developing countries have the capacity to implement existing (or new) commitments; and putting in place domestic policy frameworks which will permit developing countries to benefit from increased liberalization.

The final area of concern is those countries or sectors which will lose out as a result of increased liberalization (notably the net food-importing

developing countries). There may be scope to provide for mechanisms to assist the adjustment process.

To be effective in the negotiations, developing countries need to be well-informed on these issues, and to garner support from other countries. This suggests a role for developing countries, donors, NGOs, and even consumer groups*, to lobby and raise awareness of these issues.

Targeting the export sector

Similarly, there are a number of ways in which the export sector can be singled out, or allowed to grow. This focus has typically been part of the structural adjustment measures taken in SSA countries over the last 10-15 years. This might include selected investment in infrastructure, or targeting business or trade development interventions.

An additional important area which has escaped attention until recently concerns the institutional context which facilitates trade and investment. Box 9 outlined some of the measures that developing countries could take to increase their integration in global markets (both by strengthening their trade base and by greater participation in trade negotiations), and reduce their country risk ratings (using a variety of measures including macro-economic tools, credit syndication, regional stability pacts, investment charters and public insurance agencies).

In *Strengthening institutions*, p.43, the importance of particular institutions and services to the development of a strong export base, and the inevitable role for government in some of these areas (market reforms, promoting research and extension, developing sound transport and communication infrastructure, attracting FDI, and establishing appropriate legal and financial services) were discussed. It is also important to recognize the particular characteristics of smallholder-produced agricultural exports (*see Addressing constraints which are specific to agricultural exports*, p.50), where risk associated with normal seasonal, weather and market fluctuations may be compounded by poor information on the state of the harvest (itself a consequence of a dispersed production base poorly served by roads and telecommunications). Where rapid action is needed to deal with a pest problem, or to harvest before an expected storm, this

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* Although ethical and fair-trade initiatives presently cover a very small share of the market, they may have a wider impact, inasmuch as they draw consumer attention to trade and development issues.

may be difficult to organize. In a relatively undeveloped rural economy, even organizing transport to take a perishable crop to packing and export points may be difficult or costly. Improvement in a wide range of rural services and institutions would contribute to a 'smoother' (and lower-cost) export operation. Whilst some of these will develop in tandem with private sector development, the government can play a critical role in the provision of infrastructure and selected public services.

There is an on-going need for informed market research and analysis about different export opportunities. Whilst ideally this would be left in the hands of the private sector, when this is not forthcoming, publicly funded trade or business development units could provide such information, possibly with donor support, to help catalyse private initiative. The importance of some commodities may be immediately apparent, but there may be scope to extend the benefits from trade by careful and realistic analysis of opportunities to add value. For instance, coffee exports are very important to the Ugandan economy, and market reforms have led to significant increases in exports. However, these exports are green coffee beans, and value is added (roasting, blending, packing) only in importing countries. Yet there are a number of different ways in which Uganda could increase the unit value of its coffee exports, without necessarily taking on the processing functions presently carried out in Europe. These include: increasing the share of higher-value Arabica coffee in its exports; specializing in 'gourmet' coffees, which command higher prices, and are currently fashionable; or marketing coffee as an organic or fair-trade product. Each of these strategies would generate different benefits, and entail different types of investment, competencies and institutions. Analyses of these would permit an informed choice of export development strategy allowing Uganda to increase its share of value added in coffee.

An additional area which should not be overlooked in developing the agricultural export sector, is making sure that food production can keep pace with the increase in demand for food (*see Poverty*, p.31). This implies a concomitant focus on food crops (be it through research, and/or other rural services), and explicitly draws food producers into an economic development debate, which could otherwise risk focusing overly on the export sector.

Focusing on the poor

Finally, there are a number of ways of improving opportunities for the poor to benefit from agricultural trade. Of those identified here, two are 'enabling' in nature (rural services and infrastructure) and two are more specific (creating opportunities in labour-intensive unskilled sectors, and strengthening performance in export sectors in which the poor participate directly).

Firstly, attention should be given to addressing issues that improve market access and economic participation. This includes strengthening the provision of both general social services (such as health and education) and more targeted services (for instance, financial and agricultural services), and taking steps which improve access by the poor. Access is a critical issue, because rural areas are almost always poorly served by both public and commercial services, and within rural areas the poor are likely to find these services particularly inaccessible. This requires that: (a) rural services are improved; (b) the poor are able to influence the focus of services such that it addresses their needs; and (c) services are more poor-friendly. The first is a question of resources, priorities, and policies which encourage private investment (for instance, deregulation of banking such that private banks seek opportunities for expansion in rural areas). Giving the poor a voice in these services is not easy. Current initiatives in some countries to decentralize and improve participation in governance processes may help, but in most cases it is still too early to judge the results (*see* Griffiths *et al.*, 1999 for more detail). For some time, however, agricultural research, NGOs and rural development projects have been improving their pro-poor focus, and where there are good linkages between these groups and government sectors, there should be scope for the one to influence the activities of the other. Building capacity of CBOs and producer groups can also play a critical role, since such groups can serve as a conduit for services, take on some functions which would help reduce the cost of service provision, and can serve as a forum in which local needs and priorities can be articulated. Realistically, though, increasing the voice of the poor in rural services must be seen as a long-term process to which a number of separate initiatives can all contribute (for instance, decentralization, improved democratic processes, the greater use of demand-led and participatory approaches). Making services more poor-friendly is probably easier – though this does not mean it is particularly common. These issues are dealt with in more detail in Griffiths

et al., 1999, and Goodland *et al.,* 1999 (the latter covers financial services), but examples of the sort of measure that can be taken include:

- providing services at a time and a place convenient for the intended user;
- making sure that participation requirements are appropriate to the poor (relaxing literacy requirements in lending programmes, for instance); and
- ensuring that the building or people who work there are not intimidating to the poor.

Secondly, the poor may benefit directly from the expansion of agricultural trade opportunities through participation in export-related activities and production, or indirectly through the multiplier effects in the rural economy. In *Poverty*, p.31, the importance of sustaining output in the food crop sector was noted, since without this, rising food prices will choke off agricultural export production. There is a key role here for government in assuring adequate levels of rural infrastructure. This will help prevent the emergence of bottlenecks, and is key to the realization of the multiplier effects of agricultural trade in the local economy. These effects are an important source of additional gain, which spread trade benefits throughout the rural economy (through marketing and input linkages, but notably consumption effects too). They merit particular emphasis because where export activities entail specialist skills, contacts or resources, the poor are most likely to participate in the wider benefits from trade.

Thirdly, consideration should nonetheless be given to the specific areas in which the poor can participate. In particular, opportunities that increase the demand for unskilled labour are likely to benefit the poor. Possibly, opportunities may be in labour-intensive commercial farming practices (for example, horticulture) or processing and handling (for example, preparation of horticultural products into retail packs for export). Depending on their characteristics in different countries, the poor may benefit from increased opportunities in agricultural trade in different ways. In Africa, the rural poor mostly have access to land, so may be able to participate in production of export crops. In Asia the poorest groups are often landless. This means that accessible employment opportunities are most likely to arise for unskilled labour on farms and in other rural enterprise. One of the few ways in which low labour-cost developing countries can compete in global markets is by exploiting labour-intensive

opportunities. To do this, however, they will have to match their supply of low-cost unskilled labour with skills, in, for instance, management, marketing, and computer technology. Creating opportunities for the poor to participate in trade may mean planning for these other skills too. There would be no work opportunities in horticultural export packing in Zimbabwe were it not for the experience and contacts developed in export agriculture in general. The conundrum for developing countries is how to protect worker conditions in the face of inevitably fierce competition to produce the lowest-cost product.

Finally, consideration should be given to strengthening performance in those export sectors in which the poor participate directly. Examples include: focusing on export crops grown by the poor, and ways in which their participation could be extended or expanded; and facilitating informal cross-border trade, in those areas where this is known to be particularly important to the poor (for example, women's participation in informal horticultural trade). For instance, in Africa coffee is a smallholder crop. Uganda provides interesting examples of the potential for increasing smallholder benefits from the export of coffee. Whilst still intending to export green coffee beans, Uganda nonetheless sees opportunities for the development of gourmet coffees, increased production of higher-value Arabica coffee, and export of specialist fair-trade and organic coffee. All of these are higher-value products, and whilst still exporting green beans, Uganda is not confronted with difficulties that might arise in marketing and processing. It can thus exploit its natural resource base, and use its production methods as a selling point, and at the same time benefit from existing commercial contacts and the good reputation already established. Whilst these measures might appear modest, they are probably attainable, and can provide a sound base for subsequent expansion. Regional trade provides a completely different example of a trading area that creates opportunities for the poor. The significance and scale of regional trade is increasingly apparent, although there is still relatively poor information on its constituents and the factors that drive it. More information is needed before particular pro-poor interventions and policies can be identified, but given the importance of such trade, this should be treated as a high priority.

THE LONG-TERM VIEW

In summing up, it is important to stress that few developing countries are likely to see major short-term benefits from international trade liberalization. The economic principles on which these global trends in policy are based depend on long-term processes of specialization, development in areas of comparative advantage, and capacity building. In the short term there may be some success stories, but sustainable growth in export and domestic sectors is only likely to come from a well-rounded long-term process of economic and social capacity building.

While the developing countries could do more to attract productive investment, by reducing market distortions, unrealistic exchange rates and trade restrictions international trade and the conditions under which it operates are determined, to a large extent, by the dominant trading countries, which are also the most developed economies. If the donor agencies from the most-developed economies are sincere about wanting to eliminate poverty, there is a need to address the global imbalance caused by the developed countries having only one-fifth of the world's population while producing four-fifths of world output and accounting for more than four-fifths of world trade.

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ACRONYMS AND ABBREVIATIONS

ACP	African, Caribbean and Pacific countries (signatories of the Lomé Convention)
AfDB	African Development Bank
CAP	Common Agricultural Policy
CBO	community-based organizations
CFA	Communauté Financiere Africaine
CIIR	Catholic Institute for International Relations
COMESA	Common Market for Eastern and Southern Africa
DFID	Department for International Development (UK)
DWFN	Distant water fishing nations
ECU	European currency unit
EEZ	Exclusive economic zones
EEC	European Economic Community
EU	European Union
FAO	Food and Agriculture Organisation of the United Nations
FAOSTAT	FAO on-line agricultural database
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
IMF	International Monetary Fund
IMM	International Marine Management
MEA	Multilateral environmental agreements
MRAG	Marine Resource Advisory Group
NRET	Natural Resources Ethical Trading Programme at NRI
ODI	Overseas Development Institute
OECD	Organisation for Economic Co-operation and Development
PTA	Preferential Trade Area for Eastern and Southern Africa
SEFA	Sustainable and equitable fisheries agreements
SPS	Sanitary and phyto-sanitary trade measures under the WTO
SSA	Sub-Saharan Africa
SADC	Southern African Development Community (previously SADCC)
TBT	Technical barriers to trade
UNCLOS	United Nations' Convention on Law of the Sea
WTO	World Trade Organisation

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